

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

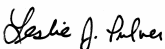
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Brighton, Michigan

**Financial Report
with Supplemental Information
June 30, 2006**

City of Brighton, Michigan

Contents

Letter of Transmittal	i-ix
Report Letter	1-2
Management's Discussion and Analysis	3-13
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15-16
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	17-18
Statement of Revenue, Expenditures, and Changes in Fund Balances	19-20
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Proprietary Funds:	
Statement of Net Assets	22
Statement of Revenue, Expenses, and Changes in Net Assets	23
Statement of Cash Flows	24
Fiduciary Funds - Statement of Assets and Liabilities	25
Component Units:	
Statement of Net Assets	26
Statement of Activities	27-28
Notes to Financial Statements	29-49
Required Supplemental Information	50
Budgetary Comparison Schedule - General Fund	51
Budgetary Comparison Schedule - Major Special Revenue Funds	52-53
Notes to Required Supplemental Information	54

Statistical and Continuing Disclosure Section	55
Financial Trend Information:	
Net Assets by Component	56
Changes in Governmental Net Assets	57
Changes in Business-type Net Assets	58
Fund Balances - Governmental Funds	59-60
Changes in Fund Balances - Governmental Funds	61-62
Revenue Capacity Information:	
Taxable Value and Actual Value of Taxable Property	63-64
Direct and Overlapping Property Tax Rates	65-66
Principal Property Taxpayers	67
Property Tax Levies and Collections	68
Debt Capacity Information:	
Ratios of Outstanding Debt	69-70
Ratios of General Bonded Debt Outstanding	71
Direct and Overlapping Governmental Activities Debt	72
Legal Debt Margin	73-74
Pledged-revenue Coverage	75-76
Demographic and Economic Information:	
Demographic and Economic Statistics	77
Principal Employers	78
Operating Information:	
Full-time Equivalent Government Employees	79-80
Operating Indicators	81-82
Capital Asset Statistics	83-84

October 19, 2006

Honorable Mayor and City Council
City of Brighton

The annual financial report of the City of Brighton, Michigan for the fiscal year ended June 30, 2006 is submitted herewith. It was prepared by staff in the Finance Department with the assistance of the audit staff from Plante & Moran, PLLC. This report was prepared in accordance with regulations and standards set forth by the City Charter, the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants and its Committee on Governmental Accounting and Auditing, the Treasurer of the State of Michigan, and the Government Finance Officers Association. Responsibility for the accuracy, completeness, and fairness of the financial data herein, including all disclosures, rests with the City's management.

The accompanying report includes full accrual government-wide financial statements. The purpose of these statements is to demonstrate the operational accountability of the City. Operational accountability is the City's responsibility to report the extent to which we have met our operating objectives efficiently and effectively, using all resources available for that purpose, and whether we can continue to meet our objectives for the foreseeable future. Both the providers and users of City services want to know (1) what public services are provided today and will the City be able to maintain that same (or increased) level of services in future years without an increase in the tax rate, (2) how much debt is outstanding and will the City be able to repay it without cutting back on the public services provided or increasing the tax rate, and (3) how does the City compare to other cities with similar characteristics?

The information presented is accurate in all material aspects. The financial statements presented are designed to provide the reader with information to assist in determining both the long-term fiscal health of the City and the City's ability to meet obligations on a short-term basis. The financial statements contained in this report are designed to fairly set forth the financial position and results of operations of the City and include all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs.

The Reporting Entity

As required by generally accepted accounting principles (GAAP), these financial statements present the City of Brighton and related component units. The individual component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The report includes all funds of the City and encompasses a full range of municipal services in the administrative, public safety, community development, and public services functions of the City.

Report Organization

The annual financial report was prepared to meet the needs of a broad spectrum of financial statement readers and is divided into the following major sections:

Introductory Section - This section introduces the reader to the City of Brighton and to this report, by way of this transmittal letter.

Financial Section/Basic Financial Statements - The independent auditor's report, management's discussion and analysis, government-wide financial statements, combined fund financial statements, component unit financial statements, and notes to the financial statements are included here.

Financial Section/Required Supplemental Information - This section contains a comparative analysis of actual revenue and expenditures versus the original and final amended budget for the General Fund and each individual major Special Revenue Fund.

Statistical and Continuing Disclosure Section - Although this section contains substantial financial data, these schedules differ from financial statements in that they present some non-accounting data, cover more than the current year, and are designed to reflect economic and financial trends and provide data pertinent to the City's annual continuing bond disclosure requirements.

General Information

The City of Brighton is located approximately 45 miles northwest of Downtown Detroit. It was incorporated as a village in 1867 and became a Home Rule City in 1928. Brighton encompasses an area of approximately 3.65 square miles, has a household population of approximately 7,263, and is the central business hub for approximately 47 percent of Livingston County's approximate 184,837 population, who reside in its southeast quadrant. The City's estimated 3,519 households reflect an approximate average of 2.06 persons per household, which is the lowest in Livingston County.

The City is primarily residential and commercial in nature, with residential land uses comprising 70 percent of the land area and contributing 53 percent of the total ad valorem tax base. Although commercial uses comprise only 14 percent of the City's land, they generate approximately 33 percent of the tax base. Industrial land uses occupy 16 percent of the land and contribute 5 percent to the property tax base. The remaining 9 percent of the ad valorem tax base is comprised of personal property taxes on commercial and industrial real estate.

Brighton has the quality of life of a small town, but also has the advantage of being ideally located with easy access to the metropolitan areas of Ann Arbor, Detroit, Flint, and Lansing. The City operates under the Council-Manager form of government. The mayor is chosen by the seven-member elected City Council from among its members. The City Council appoints the City Manager who is responsible for the administration of the City's activities. The City Council also appoints the City Attorney, City Planner, and City Engineer.

Major Initiatives in 2005-2006

- The City issued \$800,000 of Capital Improvement Bonds for various capital projects, including the East Grand River reconstruction project, sewer lift stations and a monitoring system, downtown lights and furniture, a brush chipper, and I.T. upgrades.
- The City added \$2,229,000 of new fixed capital assets, net of depreciation, including the completion of the Mill Pond Lane Improvement project, Police Building Expansion project, and the Public Service Garage Expansion project.
- The City moved the Assessing Division from the Community Development to the finance department.
- The City's "Mayor's Commission on Art in Public Places" (MCAPP) received its first monetary donations and began expending these donated funds on its biennial art display and related activities.
- The City created a new Principal Shopping District (PSD) Special Revenue Fund and appropriated \$100,000 into this new fund from the General Fund to fund the promotion of economic activity by conducting market research and public relation campaigns; developing, coordinating and conducting retail and institutional promotions; and sponsoring special events and related activities.

Accounting System and Budgetary Control

The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions and balances in a single accounting entity. Therefore, the City's accounting system is organized and operated on a "fund basis." Each fund is a distinct, self-balancing accounting entity.

This report consists of management's representations concerning the finances of the City of Brighton. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these presentations, management of the City of Brighton has established a comprehensive internal control framework that is designed to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Brighton's financial statements in conformity with GAAP.

Internal controls consist of a plan of organization under which employees' duties are so arranged and records and procedures so designed as to make it possible to exercise accounting control over assets, liabilities, revenues, and expenditures. We believe the City's internal controls are adequate in safeguarding the assets and provide the basis for reliability in all financial transactions.

In view of the importance of the budget as a planning and control instrument in the City, the accounting system provides the basis for appropriate budgetary control. Budget-to-actual comparisons are included in the required supplemental information found on pages 51-53 of this report. Unlike accounting, budgeting is not essentially a financial procedure; it is primarily a policy-planning process. Therefore, it is much less amenable to standardization; however, the importance of GAAP, audit standards, the credit markets' need for more complete disclosure of the City's underlying condition, and the heightened sophistication of the public and press about the importance of outcomes as well as projections, have combined to professionalize and conform budgeting terms and definitions to GAAP. As a result, common terminology, measurement, and classification are used consistently throughout the City's budget, accounting records, and financial reports.

Expenditures are authorized via an annual budget passed by resolution in which the Council authorizes the level of funding for City operations. The Council adopts an activity level budget, which is considered the maximum authorization to incur liabilities and not a mandate to spend. No obligation shall be incurred against, and no payment shall be made from any appropriation account that lacks a sufficient balance available to meet the obligation. All expenditures, except personnel costs and certain defined exceptions, are required to have an authorized purchase order.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Brighton operates.

Local Economy - The economic future of the City of Brighton is inseparably linked and inter-connected with the stability and growth of businesses in the Brighton area and the economic future of southeast and south-central Michigan. Economic diversification which enhances the tax base while meeting the service needs of residents without requiring extensive City services is vital to Brighton's economic future. The City can do little to affect interest rates, consumer prices, or, except for very brief periods, the unemployment rate. When it comes to development, however, the City has considerable ability to stimulate the City's economic development through autonomous actions. Although the availability of a skilled labor supply, location and transportation facilities, and energy costs are far more important in industry location decisions than are local tax and expenditure policies, the level of taxation in the City may be an important determinant of business location *within* the region. How much the City is willing to provide in tax incentives for economic development depends on the probability that the fiscal incentive will work, the need for jobs in the City, and the potential effect of any new industry on the City's revenue and costs. Whatever the effect of the fiscal environment, the City does what it is most capable of to influence location decisions through the fiscal system. According to the Southeast Michigan Council of Governments (SEMCOG), businesses in the City of Brighton employ approximately 9,200 workers, which is expected to increase 33 percent to approximately 12,200 by 2030.

The City's property tax base is well distributed among its taxpayers and has been increasing steadily. Proposal A, which was voted into law on March 15, 1994, created an "assessment cap" of 5 percent or the rate of inflation, whichever is less, until property ownership is transferred, at which time the cap is lifted to the subsequent year's assessed value. Without significant new taxable land development within the City, the assessment cap may adversely affect the City's future ability to finance existing City services. On the other hand, as ownership of properties is transferred and their respective assessment caps are lifted, the cumulative increase in taxable value may exceed the rate of inflation, causing the City's operating millage to be rolled back based on the Headlee Millage Reduction Fraction, which is currently at 15.2734 mills.

Property tax administration involves discovery of the tax base, preparation of an inventory or property list, appraisal and assessment of property value, recognition of exemptions, determination of the tax levy, and finally collection, remittance, and reconciliation of the tax. Fundamental to accomplishing these tasks is the establishment and maintenance of adequate position levels staffed with highly qualified employees, the establishment and maintenance of complete and accurate procedures and forms, and the provision of a system to maintain records and retrieve information in a timely and accurate manner. To that end, I believe the City needs to utilize its existing personnel and technological resources to their optimal value, while at the same time evaluating the need for structural and organizational changes to prepare for the future demands and workloads of this vital and most important revenue source of the City's governmental activities.

The adjusted taxable valuation of \$385,961,655 represents an 8.9 percent increase over the previous year's adjusted taxable valuation. The ratio of total City tax collections to date for tax year 2005 (current and delinquent) to the current tax levy is 99.99 percent.

Long-term Financial Planning - The City's Master Plan includes the goals to provide for capital improvements that are needed to sustain a quality life for its residents, and to explore methods of generating additional revenue to fund operational and capital projects, including alternative funding options such as grant funding. Annually, City staff prepares a six-year Capital Improvement Plan (CIP), which is reviewed by the City Planning Commission and adopted by the City Council. The first year of the adopted CIP is incorporated into the City Manager's proposed budget, if funding is available. The City's DDA has its own development plan, which was previously adopted by the City Council and is also reviewed annually for budgetary considerations. The City's Debt Management Policy has established debt capacity limits or guidelines for the City to use in conjunction with its capital planning and budgeting processes.

Cash Management Policies and Practices - The City makes a serious effort to maximize investment earnings, diversification and insurability of its investable funds. Idle cash during the year was invested in U.S. Treasuries, cash management funds, guaranteed investment contracts, and annuity funds. Interest earned for the current fiscal year amounted to \$494,078, an increase of \$238,170 or 93 percent from the preceding year, which was caused by an overall steady increase in market rate yields, along with a proactive policy to seek the highest rate of return possible, after the primary objectives of safety of principal and adequate liquidity are achieved.

The Future

We continue to be fiscally sound, accountable, and have operated the City in a good financial manner despite rising costs and demands for services. However, maintaining a sound financial condition for the City continues to be challenging. The City's true financial condition can be broadly defined as its ability to finance its services on a continuing basis. More specifically, financial condition refers to the City's ability to maintain existing service levels, withstand local and regional economic disruptions, and meet the demands of natural growth, decline, and change.

Maintaining Existing Service Levels - The City can currently afford to continue paying for the services it now provides. Current service levels include the maintenance of capital facilities, such as streets and buildings, in a manner that protects the initial investment and keeps the facilities in usable condition. In addition, the continued provision of City services requires funds for future liabilities, such as debt service payments, which are pledged against the future full faith and credit of the City's tax base. However, as the City approaches the practical build-out of its existing undeveloped lands, and if the current negative trends of reduced Revenue Sharing, reduced personal property taxing ability, and the cumulative effects of the Headlee Amendment and Proposal A continue well into the future, then the City will be forced to look seriously at possible service cuts.

Withstanding Economic Disruption - The City's current undesignated fund balance provides it a cushion to withstand most local and regional economic disruptions, such as a decision by a major employer to move out of the City, producing a significant negative impact on City employment and its tax base; or a surge of national inflation that affects expenditures more heavily than revenue, leaving the City more funds but less purchasing power. Nevertheless, this may not be sufficient in the event of a natural or criminal disaster, which could require the City to borrow short-term to cover unanticipated emergency expenditures.

Meeting Demands of Growth and Decline - According to recent projections provided by SEMCOG, the City of Brighton's population is expected to increase to only 7,321 by the year 2030. As we have seen in recent years, population growth can force the City to rapidly assume new debt to finance streets and utility lines, or it can cause a sudden increase in the operating budget to provide necessary services. Loss of population, on the other hand, can leave the City with the same streets and utilities to maintain, but with fewer people to pay for them. Even stability can create financial pressure if a population changes composition. For example, a stable population that becomes older and poorer can require new government programs with expensive start-up costs and operating costs that are more expensive than the current service levels. SEMCOG's projections show an 84 percent increase in the City population age 65 or older and a 53 percent decrease in the City population age 1-17 from the 2000 census to the year 2030. Overall, as the population ages, the persons-per-household is expected to decrease to 1.89.

Financial Forecasting - In order to better understand the financial condition of the City, it will become increasingly important to continue the development of an ongoing financial forecasting model, which should at minimum parallel the City's CIP six-year time frame. The end result of this forecasting model should be intended to communicate what is likely to happen in the future based on where the City is today and where it appears to be heading. The preparation of a reasonably complete forecast will allow the City to look at its options and prudently plan and act accordingly. The utility rate and fee study currently being conducted will have a significant impact on the Utilities Fund forecasts going forward. The results of the study, including recommendations, should be complete by the end of October 2006, which will allow the City time to factor in any financial impacts into the fiscal year 2007-2008 budget process.

Accounting and Financial Reporting Resources - GASB continues to issue new Statements, which impact and change how the City accounts and reports its financial activities. GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, impacts the City of Brighton for the fiscal year 2005-2006. The City has for a number of years included a statistical and continuing disclosures section in its annual financial report, with the ultimate goal of developing a document eligible to receive the GFOA's Certificate of Achievement for Excellence in Financial Reporting, i.e., a Comprehensive Annual Financial Report (CAFR). Although much more work is still needed to be in position to apply for this award within the next few years, by virtue of the fact that we have included a statistical section in the past, it is now mandatory for the City to comply with this new standard.

Although it is not part of the basic financial statements, the statistical section is a rich source of trend data for those analyzing the City's financial health. GASB No. 44 significantly updated and enhanced the requirements of this section to reflect the major changes that have occurred in government finance over the years, including the more comprehensive government-wide information that GASB No. 34 requires. Under the new standards, the statistical section should present the following five categories of data, if available, generally for the last 10 years:

1. Financial trends - Net assets, changes in net assets, fund balance, and changes in fund balance;
2. Revenue capacity - Taxable values, direct and overlapping tax rates, principal property taxpayers, and property tax levies and collections;

3. Debt capacity - Ratios of outstanding debt, ratios of general bonded debt outstanding, direct and overlapping governmental activities debt, legal debt margin, and pledged bond revenue coverage;
4. Demographic and economic - Population, personal income, per capita income, unemployment rate, and principal employers; and
5. Operating - Number of employees, operating indicators, and capital asset information.

Although GASB No. 44 is new, requires more work and is effective now, the statement which will impact the City the most in the next few years is GASB 45, which will require changes in the Reporting of Other Post Employment Benefits (OPEB). This new accounting statement will bring an increase in accounting workload, largely due to the requirement of the City to calculate an estimate of the non-pension benefits for the City's retirees and potential future retirees, such as retiree health care, to be shown as an accrued liability on the City's accounting records. Rather than using pay-as-you-go for retiree benefits, as the City currently does, GASB No. 45 will require the City to estimate the future value of such benefits for its retirees, and potential future retirees, and then calculate an actuarially type derived yearly expense to be shown in its financial accounting records. While GASB No. 45 requires only accrued accounting of retiree benefits, failure to then fund the calculated annual liability may have additional credit consequences, as an unfunded paper liability will materialize over time.

The effective date of this new accounting standard for the City of Brighton will be in fiscal year 2009-1010. However, the City has already taken a financially prudent approach by establishing an OPEB Reserve Fund in fiscal year 2006-2007 to begin to accumulate an asset to offset the future annual accrued liability. In addition, the City has commissioned an actuarial valuation of OPEB, which will develop a projection of funding costs and accounting expense. This valuation should be complete by the end of October 2006, which will allow the City time to factor in any financial impacts into the fiscal year 2007-2008 budget process.

Finally, the City needs to analyze the future funding needs of its employee pension system (MERS). The accrued liability of the City's MERS plan has gone from 80 percent funded in 2000 to 68 percent funded in 2005. The standard amortization period to fund the unfunded liability has been 30 years. This amortization period will be reduced by one year in each of the next five annual valuations. Beginning with the 2011 valuation, a 25-year period will be established with each annual valuation. It is my recommendation that the City should establish a financial policy to become at least 80 percent funded by 2011 and maintain, at minimum, an 80 percent funding level thereafter. This will probably require significant annual cash contributions from the City, over and above the annual required contributions.

Independent Audit

The City Charter requires an annual audit of all accounts of the City by certified public accountants selected by the City Council. This requirement has been complied with and the report of Plante & Moran, PLLC, certified public accountants, is included herein. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Brighton for fiscal year ended June 30, 2006 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Brighton's financial statements for the fiscal year ended June 30, 2006 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Acknowledgments

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department, as well as the advice from Plante & Moran, PLLC. I wish to express my sincere appreciation to all members of the Department who assisted and contributed to its preparation. I would also like to express my thanks to the City Manager, the department directors, and each of you for your interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in black ink, reading "David C. Gajda". The signature is written in a cursive style with a large, stylized "D" and "G".

David C. Gajda
Finance Director



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Independent Auditor's Report

To the City Council
City of Brighton, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Brighton, Michigan (the "City") as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the City Council
City of Brighton, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introductory section and statistical and continuing disclosures, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The introductory section, statistical section, and continuing disclosures have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Plante & Moreau, PLLC

September 15, 2006

City of Brighton, Michigan

Management's Discussion and Analysis

As the Finance Director of the City of Brighton (the "City"), I offer readers of the City of Brighton's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. I encourage readers to consider the information presented here in conjunction with additional information that I have furnished in my letter of transmittal, which can be found on pages i-ix of this report.

Financial Highlights

- The assets of the primary government and component units of the City exceeded its liabilities at the close of the most recent fiscal year by \$59,677,111 (net assets). Of this amount, \$5,273,563 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$407,553. This increase is the net result of an increase of \$266,331 in component unit (DDA and LDFA) net assets and an increase of \$141,222 in the net assets of the primary government.
- The \$141,222 increase in the net assets of the primary government is the net result of a \$17,894 decrease in the net assets of the governmental activities and a \$159,116 increase in net assets of the business-type activities (Utilities Fund). The increase in net assets of the Utilities Fund is primarily the result of resources from investment earnings. The small decrease in net assets of the governmental activities is primarily the result of increases in net expenses in the general government, public safety, and interest on long-term debt functions.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,824,462, a decrease of \$1,624,500 in comparison with the prior year. Approximately 93 percent of the fund balance is available for spending at the City's discretion (unreserved fund balance). The majority of the decrease in the unreserved fund balance is the result of the use of the previous year's bond proceeds in the Major Street and Capital Improvement Funds.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,350,510, or 36 percent of total current General Fund budgeted operating expenditures for the year ended June 30, 2006.
- The City's total debt (primary government and component units) decreased by \$1,375,855 (4 percent) during the current fiscal year. The key factor in this decrease was the annual maturity of pre-existing debt partially offset by the issuance of \$800,000 of new debt.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Brighton's basic financial statements. The City of Brighton's basic financial statements currently comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the City of Brighton's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the City of Brighton's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Brighton is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Brighton that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Brighton include general government, public safety, community development, and public services. The business-type activities of the City of Brighton include the water and sewer utility operations.

The government-wide financial statements include not only the City of Brighton itself (known as the primary government), but also a legally separate Downtown Development Authority and a legally separate Local Development Finance Authority, for which the City of Brighton is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 14-16 of this report.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Brighton, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Brighton can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information is useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Brighton currently maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balance for the General Fund, Major Street Fund, Local Street Fund, and Capital Improvement Fund, which all are considered to be major funds; and for the new Principal Shopping District Fund, two Street Debt Funds, and Building Authority Fund, which are considered to be nonmajor funds.

The City of Brighton adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund in the required supplemental information to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 17-21 of this report.

Proprietary Funds - The City of Brighton maintains one type of propriety fund, which is an Enterprise Fund used to report and account for its utilities (Water and Sewer Fund) operations. The Utilities Fund (which is considered a major fund) is used to report the same functions presented as business-type activities in the government-wide financial statements, but only in more detail. The proprietary fund financial statements can be found on pages 22-24 of this report.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

Fiduciary Funds - Fiduciary funds are intended to be used to account for resources held for the benefit of parties outside the City government organization. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Brighton's own programs. The accounting used for fiduciary funds is much like that of propriety funds. The City of Brighton maintains two fiduciary funds, which are Agency Funds, one for current tax collections and the other for delinquent personal property tax collections. The basic fiduciary fund financial statements can be found on page 25 of this report.

Notes to the Financial Statements. The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-49 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the City of Brighton's budgetary comparisons with actual for its General Fund and major Special Revenue Funds. Required supplemental information can be found on pages 51-53 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. As shown below, for the year ended June 30, 2006, assets exceeded liabilities by \$59,677,111.

By far, the largest portion of the City of Brighton's net assets (83 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City of Brighton uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Brighton's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

(in thousands)

	Governmental Activities		Business-type Activities		Component Units		Total	
	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
Assets								
Current assets	\$ 8,113.2	\$ 10,352.9	\$ 4,301.8	\$ 5,217.3	\$ 479.5	\$ 1,076.7	\$ 12,894.4	\$ 16,646.9
Capital assets	33,282.5	31,661.9	40,631.1	40,445.3	5,330.2	4,907.9	79,243.8	77,015.1
Total assets	41,395.7	42,014.8	44,932.9	45,662.6	5,809.7	5,984.6	92,138.2	93,662.0
Liabilities								
Current liabilities	1,346.7	1,862.7	1,078.3	1,418.0	366.4	490.2	2,791.4	3,770.9
Long-term liabilities	13,043.3	13,128.5	12,566.5	13,120.7	4,060.0	4,380.0	29,669.7	30,629.2
Total liabilities	14,390.0	14,991.2	13,644.8	14,538.7	4,426.4	4,870.2	32,461.1	34,400.1
Net Assets								
Invested in capital assets -								
Net of related debt	20,408.6	21,091.7	27,561.0	26,433.9	1,680.2	968.6	49,649.8	48,494.2
Restricted	4,753.7	4,324.7	-	-	-	-	4,753.7	4,324.7
Unrestricted (deficit)	1,843.4	1,607.2	3,727.1	4,690.0	(296.9)	145.8	5,273.6	6,443.0
Total net assets	\$ 27,005.7	\$ 27,023.6	\$ 31,288.1	\$ 31,123.9	\$ 1,383.3	\$ 1,114.4	\$ 59,677.1	\$ 59,261.9

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

An additional portion of the City of Brighton's net assets (8 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$5,273,563) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Brighton is able to report positive balances in all three categories of net assets, for the government as a whole, as well as for its primary government and each of its separate activities, i.e., the governmental and business-type activities. In regard to its component units, the unrestricted net assets is in a deficit position, due to the fact that the LDFA Fund's outstanding debt is for assets constructed and subsequently transferred to the City.

Governmental Activities - As shown below, governmental activities decreased the City of Brighton's net assets by \$17,894. Last fiscal year, the net assets of the governmental activities decreased by \$393,479. The year-over-year change is the net result of \$649,048 more total revenue than last fiscal year and \$273,463 more total program expenses than last fiscal year. The increase in revenue is primarily in the areas of capital grants and contributions, property taxes, and investment earnings. The increase in expenses is primarily in the general government, public safety, and interest on long-term debt programs.

Business-type Activities - Business-type activities increased the City of Brighton's net assets by \$159,116. Last fiscal year, the net assets of the business-type activities increased by \$352,550. The year-over-year change is the net result of \$282,111 less total revenue than last fiscal year and \$88,677 less total program expenses than last fiscal year. The decrease in revenue is primarily caused by less connection fees. The decrease in expenses is primarily the result of decreases in operating and interest expenses.

Component Units - Component units increased the City of Brighton's net assets by \$266,331, compared to an increase of \$79,613 in the prior year. The year-over-year change is the net result of \$149,425 more total revenue than last fiscal year and \$37,293 less total program expenses than last fiscal year. The increase in revenue is primarily from tax increment revenue and capital grants. The decrease in expenses is primarily the result of a decrease in overall LDFA expenses.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

Summary Condensed Income Statement (normally presented in thousands of dollars):

	Governmental Activities		Business-type Activities		Component Units		Total	
	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
Revenue								
Program revenue:								
Charges for services	\$ 992.9	\$ 1,048.7	\$ 2,899.9	\$ 2,687.9	\$ -	\$ -	\$ 3,892.8	\$ 3,736.6
Operating grants and contributions	414.0	423.0	-	-	-	-	414.0	423.0
Capital grants and contributions	179.2	14.3	1,467.5	2,028.2	42.3	19.6	1,689.0	2,062.1
General revenue:								
Property taxes	5,655.0	5,228.3	-	-	795.1	654.3	6,450.1	5,882.6
State-shared revenue	613.1	624.3	-	-	-	-	613.1	624.3
Unrestricted investment earnings	495.0	322.1	156.8	90.3	25.3	40.3	677.1	452.7
Other	278.0	317.4	-	-	2.2	1.4	280.2	318.8
Transfers	-	-	-	-	-	-	-	-
Total revenue	8,627.2	7,978.1	4,524.2	4,806.4	864.9	715.6	14,016.3	13,500.1
Program Expenses								
General government	1,929.5	1,665.2	-	-	-	-	1,929.5	1,665.2
Public safety	2,123.8	1,995.1	-	-	-	-	2,123.8	1,995.1
Public services	3,437.1	3,578.0	-	-	598.6	636.0	4,035.7	4,214.0
Community development	584.4	636.7	-	-	-	-	584.4	636.7
Interest on long-term debt	570.4	496.7	-	-	-	-	570.4	496.7
Water and sewer	-	-	4,365.1	4,453.8	-	-	4,365.1	4,453.8
Total program expenses	8,645.2	8,371.7	4,365.1	4,453.8	598.6	636.0	13,608.9	13,461.5
Change in Net Assets	\$ (18.0)	\$ (393.6)	\$ 159.1	\$ 352.6	\$ 266.3	\$ 79.6	\$ 407.4	\$ 38.6

The City's Funds

Governmental Funds - The focus of the City of Brighton's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Brighton's financing requirements. In particular, unreserved undesignated fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Brighton's governmental funds reported combined ending fund balances of \$4,824,462, a decrease of \$1,624,500 in comparison with the prior year. Approximately 60 percent of this total amount (\$2,886,469) constitutes unreserved undesignated fund balance, which is available for investment and/or spending at the City's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to (1) liquidate contracts and purchase orders of the prior period or for subsequent year expenditures, and (2) be reserved for contingent liabilities and other restricted purposes.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

The General Fund is the chief operating fund of the City of Brighton. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was \$1,839,818 while the total unreserved fund balance reached \$2,350,518. As a measure of the General Fund's liquidity, it may be useful to compare the total unreserved fund balance to total fund operating expenditures. Unreserved fund balance represents 36 percent of total current General Fund budgeted operating expenditures for the year ending June 30, 2007.

The total fund balance of the City of Brighton's General Fund increased by \$376,359 during the current fiscal year. The primary factors for this increase were more revenue from property taxes, charges for services and interest earnings, and less community development expenditures.

At the end of the current fiscal year, unreserved undesignated fund balance of the Special Revenue Funds (Major and Local Street Funds and Principal Shopping District Fund) was \$1,046,651, while the total unreserved fund balance was \$1,909,744. The majority of the \$1,046,651 of unreserved and undesignated fund balance at year end is in the Major Street Fund, which is primarily comprised of bond proceeds and General Fund appropriations previously received for the Madison Street and East Grand River improvement capital projects yet to be completed.

At the end of the current fiscal year, the Debt Service Funds (Street Voted and Street Nonvoted Debt Funds) had a total fund balance of \$0.

At the end of the current fiscal year, fund balance of the Capital Projects Fund (Capital Improvement and Building Authority Funds) was \$234,423, which is designated for subsequent year expenditures.

Proprietary Funds - The City of Brighton's Utilities Enterprise Fund provides the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the Utilities Fund at the end of the year amounted to \$3,861,279, down from \$4,690,079 in the prior year. Although the Utilities Fund had an \$851,218 operating loss because primarily the operating revenue does not cover the depreciation expense, this fund generated net income of \$159,116. This net income, or growth in net assets, is directly attributable to one-time collection of connection fees and developer contributions, which have offset the operating loss.

General Fund Budgetary Highlights

Differences between the original budget and final amended budget can be briefly summarized as follows:

- The \$182,200 or 2.4 percent increase in total revenue from the original budget reflected primarily a net of more than expected service charges, fines and penalties, licenses and permits, interest earnings and other revenue, and was partially offset by less than anticipated tax revenue and state-shared revenue.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

- The \$109,232 or 1.8 percent increase in total expenditures from the original budget reflected primarily a net of more than expected expenditures in the public safety, public services, community development, and transfers-out activity budgets, partially offset by less than anticipated expenditures in the general government activity budgets.

Capital Asset and Debt Administration

Capital Assets - As shown below, the City of Brighton's investment in capital assets for its primary government (governmental and business-type activities) as of June 30, 2006 amounts to \$73,913,574 (net of accumulated depreciation). This investment in capital assets includes land (including rights-of-way), buildings and system, improvements, machinery and equipment, park facilities, streets, and bridges. The City of Brighton's investment in capital assets for its component units (DDA) as of June 30, 2006 amounts to \$5,330,239 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and improvements. The total increase in the City of Brighton's investment in capital assets for the current year was 2.9 percent (a 5 percent increase in governmental activities, a <0.5 percent increase for business-type activities and a 9 percent increase for its component units).

Capital Assets (Net of Depreciation)

	Primary Government							
	Governmental Activities		Business-type Activities		Component Units		Total	
	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
Land	\$ 13,530.8	\$ 13,530.8	\$ 157.4	\$ 157.4	\$ 578.8	\$ 578.8	\$ 14,267.1	\$ 14,267.0
Buildings and system	4,807.2	3,162.4	20,500.9	21,156.9	1,191.5	763.2	26,499.7	25,082.5
Machinery and equipment	1,189.9	1,374.9	519.5	379.4	3,560.0	3,552.5	5,269.4	5,306.8
Infrastructure	13,754.6	13,593.9	19,443.7	18,718.8	-	-	33,198.3	32,312.7
Construction in progress	-	-	9.6	32.9	-	13.5	9.7	46.4
Total	\$ 33,282.5	\$ 31,662.0	\$ 40,631.1	\$ 40,445.4	\$ 5,330.3	\$ 4,908.0	\$ 79,244.2	\$ 77,015.4

Major capital assets acquired during the current fiscal year included the following:

- **Governmental Activities** - The City-at-Large share of the Millpond Lane Improvements; various other Roadway and Street related improvements; developer contributions; a new HVAC system at City Hall; the Public Service Garage Expansion and Police Building Expansion projects; and various machinery, equipment and furnishings
- **Business-type Activities** – Utility-related improvements included the continuation of the Automated Meter Reading System, Residential Curb and Gutter projects, utilities related to other roadway and street projects, developer contributions, and the completion of the Lindbom Storm Water project.
- **Component Units** - DDA improvements included the completion of the Mill Pond Lane Improvement project and crosswalks.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

Additional information on the City of Brighton's capital assets can be found in Note 5 on pages 38-41 of this report.

Long-term Debt - As shown below, at the end of the current fiscal year, the City of Brighton had total debt outstanding of \$30,883,078. Of this total, \$19,134,998 or 62 percent comprises debt backed by the full faith and credit of the City, including \$1,395,406 of Revenue Bonds; \$3,400,000 or 11 percent is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment; and \$8,348,080 or 27 percent comprises revenue bonds backed by the revenue of the City's Utility Fund. A total of \$13,298,798 or 43 percent of the total debt is governmental activities debt, \$13,204,280 or 43 percent is business-type activities debt, and the remaining \$4,380,000 or 14 percent is component unit debt.

Outstanding Debt (General Obligation, Special Assessment, and Revenue Debt)

	Primary Government							
	Governmental Activities		Business-type Activities		Component Units		Total	
	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
General obligation bonds/ notes	\$ 10,108.8	\$ 10,113.2	\$ 3,251.2	\$ 3,942.0	\$ 4,380.0	\$ 4,709.3	\$ 17,740.0	\$ 18,764.5
Special assessment bonds	3,190.0	3,425.0	210.0	245.0	-	-	3,400.0	3,670.0
Revenue bonds with a general obligation pledge	-	-	1,395.0	1,224.4	-	-	1,395.0	1,224.4
Revenue bonds	-	-	8,348.0	8,600.0	-	-	8,348.0	8,600.0
Total	\$ 13,298.8	\$ 13,538.2	\$ 13,204.2	\$ 14,011.4	\$ 4,380.0	\$ 4,709.3	\$ 30,883.0	\$ 32,258.9

The City of Brighton's total debt decreased by \$1,375,855 (4 percent) during the current fiscal year. The key factor in this decrease was the annual maturity of pre-existing debt partially offset by the issuance of \$800,000 of new debt for various governmental activities and related business-type activities projects (including the East Grand River Avenue Road Improvement Project and Sewer Lift Station Improvement and a related Monitoring System).

The City of Brighton maintains non-insured ratings as follows: A+ from Standard & Poor's, A1/A2 rating from Moody's, and an A+ from Fitch.

State statutes limit the amount of general obligation debt a city may issue to 10 percent of its total assessed valuation. The current debt limitation for the City of Brighton is \$48,959,590, which is significantly in excess of the City's total net debt (total debt less special assessment, revenue, MTF, and County shared debt) of \$14,590,000. Therefore, the legal debt margin, or what the City could legally add to its outstanding debt at June 30, 2006 was \$34,369,590.

Additional information on the City of Brighton's long-term debt can be found in Note 7 on pages 42-46 of this report.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City of Brighton has not been tracked since December 31, 2004. At June 30, 2006, the average unemployment rate for Livingston County was 4.7 percent; for the State of Michigan it was 6.3 percent; and for the United States it was 4.6 percent.
- The Consumer Price Index (CPI) for our region (Detroit/Ann Arbor/Flint) was 3.8 percent for the year ended June 30, 2006, which is an increase from the CPI of 2.0 percent a year ago. This compares unfavorably to the Midwest Urban average CPI rate of 3.4 percent and favorably to the national CPI rate of 4.3 percent.

The trends in these economic factors will be considered in preparing the City of Brighton's fiscal year 2007-2008 budget.

During the current fiscal year, unreserved fund balance in the General Fund increased by \$376,345 to \$2,350,518. The City of Brighton has designated \$510,700 of this amount for future subsequent year expenditures and property tax contingencies. It is anticipated that a settlement refund will soon be recommended on the utility personal property multiplier tax appeal. The remaining unreserved balance of \$1,839,818 is undesignated. Due to the fact that the unreserved fund balance represents 36 percent of the total current General Fund budgeted operating expenditures at June 30, 2007, the City should plan to bring this percentage down to at most 25 percent during fiscal year 2006-2007 to comply with the City's General Fund fund balance policy. In order to accomplish this, the City should consider appropriating some unreserved fund balance to previously deferred and/or underfunded capital improvement projects in fiscal year 2006-2007, setting aside additional reserves for the future anticipated OPEB liability, and to begin funding additional MERS pension costs to increase its funding level of the accrued pension liability.

The City's utility user fees and connection fees were increased for the fiscal year 2005-2006 budget year. The user fees were increased by an average of 3 percent and the connection fees were increased by an average of 8 percent for all customers. The user fee rate increase was necessary to support the ongoing operations and maintenance of the City's utility systems, while the connection fee rate increase was necessary to support the future replacement of existing capital assets from new and future economic development. The City continues to see a trend of reduced connection fees, based on the recent economic downturn and as the City approaches its eventual build-out. As connection fees continue to diminish, whether it is by reduced units and/or reduced fees per unit, then the City will need to reduce its use of utility reserves to fund significant new utility capital projects. The results of a current utility rate study will be recommending a new rate-setting methodology for utility user fees and connection fees, taking into account projections of the eventual build-out of the City and other factors.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

Contacting the City's Management

This financial report is designed to provide a general overview of the City of Brighton's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to David C. Gajda, finance director, City of Brighton, 200 N. First Street, Brighton, MI 48116.

City of Brighton, Michigan

Statement of Net Assets June 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 4,478,114	\$ 2,710,390	\$ 7,188,504	\$ 465,430
Receivables - Net (Note 4)	3,191,234	996,867	4,188,101	14,057
Restricted assets (Note 8)	424,910	134,182	559,092	-
Inventories	-	173,803	173,803	-
Prepaid costs and other assets	18,902	286,546	305,448	-
Capital assets - Not being depreciated (Note 5)	13,530,821	166,927	13,697,748	578,764
Capital assets - Net of depreciation (Note 5)	19,751,681	40,464,145	60,215,826	4,751,475
Total assets	41,395,662	44,932,860	86,328,522	5,809,726
Liabilities				
Accounts payable	169,256	189,207	358,463	46,384
Accrued and other liabilities	295,042	140,928	435,970	-
Noncurrent liabilities (Note 7):				
Due within one year	882,390	748,200	1,630,590	320,000
Due in more than one year	13,043,276	12,566,454	25,609,730	4,060,000
Total liabilities	14,389,964	13,644,789	28,034,753	4,426,384
Net Assets				
Invested in capital assets - Net of related debt	20,408,614	27,560,974	47,969,588	1,680,239
Restricted:				
Roads	4,423,944	-	4,423,944	-
Cemetery care	327,659	-	327,659	-
Economic development	2,118	-	2,118	-
Unrestricted	1,843,363	3,727,097	5,570,460	(296,897)
Total net assets	<u>\$ 27,005,698</u>	<u>\$ 31,288,071</u>	<u>\$ 58,293,769</u>	<u>\$ 1,383,342</u>

City of Brighton, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,929,394	\$ 716,436	\$ -	\$ 172,408
Public safety	2,123,785	276,500	-	-
Public services	3,437,104	-	413,954	6,800
Community development	584,427	-	-	-
Interest on long-term debt	570,384	-	-	-
Total governmental activities	8,645,094	992,936	413,954	179,208
Business-type activities - Water and sewer	4,365,161	2,899,929	-	1,467,534
Total primary government	<u>\$ 13,010,255</u>	<u>\$ 3,892,865</u>	<u>\$ 413,954</u>	<u>\$ 1,646,742</u>
Component units:				
Downtown Development Authority	\$ 510,748	\$ -	\$ -	\$ 19,099
Local Development Finance Authority	87,959	-	-	23,247
Total component units	<u>\$ 598,707</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,346</u>
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Other				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (1,040,550)	\$ -	\$ (1,040,550)	\$ -
(1,847,285)	-	(1,847,285)	-
(3,016,350)	-	(3,016,350)	-
(584,427)	-	(584,427)	-
(570,384)	-	(570,384)	-
(7,058,996)	-	(7,058,996)	-
-	2,302	2,302	-
(7,058,996)	2,302	(7,056,694)	-
-	-	-	(491,649)
-	-	-	(64,712)
-	-	-	(556,361)
5,654,956	-	5,654,956	795,135
613,149	-	613,149	-
494,997	156,814	651,811	25,341
278,000	-	278,000	2,216
7,041,102	156,814	7,197,916	822,692
(17,894)	159,116	141,222	266,331
27,023,592	31,128,955	58,152,547	1,117,011
\$ 27,005,698	\$ 31,288,071	\$ 58,293,769	\$ 1,383,342

City of Brighton, Michigan

	Major Funds			
	General	Major Street	Local Street	Capital Improvement
Assets				
Cash and investments	\$ 2,733,817	\$ 1,482,493	\$ 20,084	\$ 141,388
Receivables:				
Delinquent taxes	70,692	-	-	-
Special assessments	-	2,882,263	-	-
Due from other governmental units	169,927	51,485	16,867	-
Restricted assets	-	268,364	-	156,546
Total assets	<u>\$ 2,974,436</u>	<u>\$ 4,684,605</u>	<u>\$ 36,951</u>	<u>\$ 297,934</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 75,864	\$ 28,529	\$ 719	\$ 63,511
Accrued liabilities	131,077	-	-	-
Deposits	16,508	-	-	-
Deferred revenue	70,692	2,882,263	-	-
Total liabilities	294,141	2,910,792	719	63,511
Fund Balances				
Reserved for:				
Cemetery care	327,659	-	-	-
Economic development	2,118	-	-	-
Unreserved - Reported in:				
Designated for subsequent years' expenditures	425,700	863,093	-	234,423
Designated for property tax contingencies	85,000	-	-	-
General Fund	1,839,818	-	-	-
Special Revenue Funds	-	910,720	36,232	-
Total fund balances	<u>2,680,295</u>	<u>1,773,813</u>	<u>36,232</u>	<u>234,423</u>
Total liabilities and fund balances	<u>\$ 2,974,436</u>	<u>\$ 4,684,605</u>	<u>\$ 36,951</u>	<u>\$ 297,934</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds, net of accumulated depreciation

Receivables are expected to be collected over several years, and are not available to pay for current year expenditures

Long-term liabilities are not due and payable in the current period and are not reported in the funds

Accrued interest is not due and payable in the current period and is not reported in the funds

Capitalized bond discount costs are not reported in the governmental funds, net of amortization

Net assets of governmental activities

**Governmental Funds
Balance Sheet
June 30, 2006**

Nonmajor Funds				Total
Principal Shopping District	Street Voted Debt	Street Non-Voted Debt	Building Authority	Governmental Funds
\$ 100,332	\$ -	\$ -	\$ -	\$ 4,478,114
-	-	-	-	70,692
-	-	-	-	2,882,263
-	-	-	-	238,279
-	-	-	-	424,910
<u>\$ 100,332</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,094,258</u>
\$ 633	\$ -	\$ -	\$ -	\$ 169,256
-	-	-	-	131,077
-	-	-	-	16,508
-	-	-	-	2,952,955
633	-	-	-	3,269,796
-	-	-	-	327,659
-	-	-	-	2,118
-	-	-	-	1,523,216
-	-	-	-	85,000
-	-	-	-	1,839,818
99,699	-	-	-	1,046,651
99,699	-	-	-	4,824,462
<u>\$ 100,332</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
				33,282,502
				2,952,955
				(13,925,666)
				(147,457)
				18,902
				<u>\$ 27,005,698</u>

City of Brighton, Michigan

	Major Funds			
	General	Major Street	Local Street	Capital Improvement
Revenue				
Property taxes	\$ 5,654,956	\$ -	\$ -	\$ -
State-shared	613,149	311,806	102,148	-
Charges for services	254,030	-	-	-
Special assessment	-	230,836	-	-
Fines and penalties	275,746	377	377	-
Licenses and permits	436,827	25,514	65	-
Interest	222,352	245,979	774	25,560
Other	233,638	-	-	44,362
Total revenue	7,690,698	814,512	103,364	69,922
Expenditures				
Current:				
General government	1,622,089	-	-	-
Public safety	1,982,940	-	-	-
Public services	1,957,016	1,257,316	171,138	-
Community development	580,886	-	-	-
Capital outlay	-	-	-	1,917,129
Debt service	-	-	-	316,560
Total expenditures	6,142,931	1,257,316	171,138	2,233,689
Excess of Revenue Over (Under) Expenditures	1,547,767	(442,804)	(67,774)	(2,163,767)
Other Financing Sources (Uses)				
Transfers in	-	-	40,000	334,213
Transfers out	(1,171,408)	(402,346)	-	-
Issuance of debt	-	384,000	-	224,000
Debt issuance costs	-	(3,840)	-	(2,240)
Total other financing sources (uses)	(1,171,408)	(22,186)	40,000	555,973
Net Change in Fund Balances	376,359	(464,990)	(27,774)	(1,607,794)
Fund Balances - Beginning of year	2,303,936	2,238,803	64,006	1,842,217
Fund Balances - End of year	<u>\$ 2,680,295</u>	<u>\$ 1,773,813</u>	<u>\$ 36,232</u>	<u>\$ 234,423</u>

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2006

Nonmajor Funds				Total Governmental Funds
Principal Shopping District	Street Voted Debt	Street Non-Voted Debt	Building Authority	
\$ -	\$ -	\$ -	\$ -	\$ 5,654,956
-	-	-	-	1,027,103
-	-	-	-	254,030
-	-	-	-	230,836
-	-	-	-	276,500
-	-	-	-	462,406
332	-	-	-	494,997
-	-	-	-	278,000
332	-	-	-	8,678,828
633	-	-	-	1,622,722
-	-	-	-	1,982,940
-	-	-	-	3,385,470
-	-	-	-	580,886
-	-	-	-	1,917,129
-	407,925	588,341	103,275	1,416,101
633	407,925	588,341	103,275	10,905,248
(301)	(407,925)	(588,341)	(103,275)	(2,226,420)
100,000	407,925	588,341	103,275	1,573,754
-	-	-	-	(1,573,754)
-	-	-	-	608,000
-	-	-	-	(6,080)
100,000	407,925	588,341	103,275	601,920
99,699	-	-	-	(1,624,500)
-	-	-	-	6,448,962
<u>\$ 99,699</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,824,462</u>

City of Brighton, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds \$ (1,624,500)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and recorded as depreciation expense:

Capital outlay	\$ 2,878,786	
Depreciation expense	<u>(1,383,070)</u>	1,495,716

Capital assets contributed from developers are recorded as revenue on the statement of activities	172,408
---	---------

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(224,037)
--	-----------

Bond proceeds received. Governmental funds report proceeds as revenues when received rather than capitalizing the long-term debt	(608,000)
--	-----------

Bond discounts from the issuance of debt. Governmental funds report discounts as expense when received rather than capitalizing and amortizing the discount	5,086
---	-------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	847,441
---	---------

Loss from the sale of capital assets is not reported in the governmental funds; the statement of activities records a loss, included in miscellaneous expense	(47,550)
---	----------

Increases in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when incurred in the statement of activities	(32,735)
---	----------

Interest expense accrued on long-term debt	<u>(1,723)</u>
--	----------------

Change in Net Assets of Governmental Activities \$ (17,894)

City of Brighton, Michigan

Proprietary Funds Statement of Net Assets June 30, 2006

	Enterprise - Utility Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,710,390
Receivables:	
Customer	779,376
Special assessments	217,491
Inventories	<u>173,803</u>
Total current assets	3,881,060
Noncurrent assets:	
Restricted assets	134,182
Other assets	286,546
Capital assets	<u>40,631,072</u>
Total noncurrent assets	<u>41,051,800</u>
Total assets	44,932,860
Liabilities	
Current liabilities:	
Accounts payable	189,207
Accrued and other liabilities	140,928
Current portion of long-term debt	<u>748,200</u>
Total current liabilities	1,078,335
Noncurrent liabilities:	
Provision for compensated absences	110,374
Long-term debt - Net of current portion	<u>12,456,080</u>
Total noncurrent liabilities	<u>12,566,454</u>
Total liabilities	<u>13,644,789</u>
Net Assets	
Invested in capital assets - Net of related debt	27,426,792
Unrestricted	<u>3,861,279</u>
Total net assets	<u><u>\$ 31,288,071</u></u>

City of Brighton, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

	Enterprise - Utility Fund
Operating Revenue	
Sales	\$ 2,455,922
Penalties	36,214
Tap charges and other	407,793
Total operating revenue	2,899,929
Operating Expenses	
Salaries and fringe benefits	1,254,269
Other purchased services	391,987
Purchased property services	121,291
Professional and technical services	86,569
Supplies	110,149
Depreciation	1,456,073
Amortization	28,225
Property	12,230
Utilities	286,684
Other	3,670
Total operating expenses	3,751,147
Operating Loss	(851,218)
Nonoperating Revenue (Expense)	
Interest income	156,814
Interest expense	(614,014)
Total nonoperating expense	(457,200)
Loss - Before contributions	(1,308,418)
Capital Contributions	1,467,534
Change in Net Assets	159,116
Net Assets - Beginning of year	31,128,955
Net Assets - End of year	\$ 31,288,071

City of Brighton, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

	Enterprise - Utility Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 2,879,121
Payments to suppliers	(1,209,170)
Payments to employees	(1,260,512)
Net cash provided by operating activities	409,439
Cash Flows from Capital and Related Financing Activities	
Contributions received	977,956
Principal paid on debt	(997,200)
Proceeds from issuance of new debt	192,000
Acquisition and construction of capital assets	(1,185,130)
Interest paid on debt	(614,014)
Net cash used in capital and related financing activities	(1,626,388)
Cash Flows from Investing Activities - Interest received on investments	156,814
Net Decrease in Cash and Cash Equivalents	(1,060,135)
Cash and Cash Equivalents - Beginning of year	3,904,707
Cash and Cash Equivalents - End of year	<u><u>\$ 2,844,572</u></u>
Balance Sheet Classification of Cash and Cash Equivalents	
Cash and investments (Note 3)	\$ 2,710,390
Restricted assets	134,182
Total cash and cash equivalents	<u><u>\$ 2,844,572</u></u>
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (851,218)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization expense	1,484,298
Changes in assets and liabilities:	
Accounts receivable	(20,808)
Inventories and other assets	(116,092)
Accounts payable	(80,498)
Accrued and other liabilities	(6,243)
Net cash provided by operating activities	<u><u>\$ 409,439</u></u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2006, developers constructed water and sewer lines with an estimated value of \$489,578 and donated them to the City's Enterprise Fund.

City of Brighton, Michigan

Fiduciary Funds Statement of Assets and Liabilities June 30, 2006

Agency Fund -
Tax Collection

Assets - Cash and equivalents

\$ 5,485

Liabilities - Accounts payable and other

\$ 5,485

City of Brighton, Michigan

Component Units Statement of Net Assets June 30, 2006

	Downtown Development Authority	Local Development Finance Authority	Totals
Assets			
Cash and investments	\$ 409,476	\$ 55,954	\$ 465,430
Receivables - Delinquent taxes	14,057	-	14,057
Capital assets	5,330,239	-	5,330,239
Total assets	5,753,772	55,954	5,809,726
Liabilities			
Accounts payable	44,933	1,451	46,384
Long-term debt	3,650,000	730,000	4,380,000
Total liabilities	3,694,933	731,451	4,426,384
Net Assets			
Investment in capital assets - Net of related debt	1,680,239	-	1,680,239
Unrestricted (deficit)	378,600	(675,497)	(296,897)
Total net assets	<u>\$ 2,058,839</u>	<u>\$ (675,497)</u>	<u>\$ 1,383,342</u>

City of Brighton, Michigan

		<u>Program Revenues</u>
	<u>Expenses</u>	<u>Operating Grants and Contributions</u>
Downtown Development Authority	\$ 510,748	\$ 19,099
Local Development Finance Authority	<u>87,959</u>	<u>23,247</u>
Total governmental activities	<u>\$ 598,707</u>	<u>\$ 42,346</u>

General revenues:

Taxes
Interest
Other

Total general revenues

Change in Net Assets

Net Assets (Deficit) - Beginning of year

Net Assets (Deficit) - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2006**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Local Development Authority	Total
\$ (491,649)	\$ -	\$ (491,649)
<u>-</u>	<u>(64,712)</u>	<u>(64,712)</u>
(491,649)	(64,712)	(556,361)
681,053	114,082	795,135
23,003	2,338	25,341
<u>2,216</u>	<u>-</u>	<u>2,216</u>
<u>706,272</u>	<u>116,420</u>	<u>822,692</u>
214,623	51,708	266,331
<u>1,844,216</u>	<u>(727,205)</u>	<u>1,117,011</u>
<u>\$ 2,058,839</u>	<u>\$ (675,497)</u>	<u>\$ 1,383,342</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Brighton, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Brighton, Michigan:

Reporting Entity

The City of Brighton, Michigan is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Discretely Presented Component Units

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The Authority's governing body, which consists of 13 individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council.
- b. The Local Development Financing Authority was created to encourage local economic development to prevent conditions of unemployment and promote economic growth in the community. The Authority's governing body, consisting of 10 individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the Enterprise Fund and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds and the Agency Fund utilize the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, for special assessments, which will be collected after the period of availability, receivables have been recorded for these, along with a "deferred revenue" liability.

Note 1 - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major and Local Streets Funds - Major and Local Streets Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Capital Improvement Fund - The Capital Improvement Fund is a Capital Projects Fund used to account for the development of non-street related governmental activity capital improvements and related debt of the City.

The City reports the following major proprietary fund:

Utility Fund - The Utility Fund accounts for the results of operations that provide a service to citizens that are financed primarily by a user charge for the provision of that service.

Additionally, the City reports the following nonmajor funds:

Principal Shopping District Fund - The Principal Shopping District Fund is a Special Revenue Fund used to account for funds generated to promote economic activity in the District.

Street Voted Debt and Street Non-voted Debt Funds - Street Voted Debt and Street Non-voted Debt Funds are used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt other than debt payable from the operations of an Enterprise Fund.

Building Authority Fund - The Building Authority Fund is a Capital Projects Fund used to account for the development of governmental activity capital facility/building improvements and related debt of the City. This fund was created in 1994 by resolution of the City Council.

Note 1 - Summary of Significant Accounting Policies (Continued)

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity or an agent for individuals, organizations, other governments, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected to also follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes have a final collection date of February 28 of the following year, at which time uncollected taxes are added to the county tax rolls.

The City's 2005 tax is levied and collectible on July 1, 2005 and is recognized as revenue in the year ended June 30, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2005 taxable valuation of the City totaled \$385,961,655 (a portion of which is captured by the LDFA and DDA), on which taxes levied consisted of 14.8872 mills for operating purposes and 1.0546 mills for debt service. This resulted in \$5,754,869 for operating and \$407,016 for debt service (a portion of which is captured by the LDFA and DDA). These amounts are recognized in the General Fund as tax revenue. Revenues recognized related to the debt service levy are then transferred to the Street Voted Debt Service Fund to properly reflect the debt service levy in that fund.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of one year or less when acquired. Investments are stated at fair value. Pooled investment income from various funds is generally allocated to each fund using a weighted average method.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The revenue bonds of the Enterprise Funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for the construction or debt service of the City of Brighton, Michigan's water and sewer lines. Unspent bond proceeds of the Capital Projects Funds are required to be set aside for construction. These amounts have also been classified as restricted assets.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	15 to 20 years
Water and sewer transmission lines	40 to 50 years
Retention/Equilization basin	40 to 50 years
Building/Treatment facilities	40 to 50 years
Buildings and improvements	40 to 50 years
Machinery and equipment	3 to 15 years
Equipment and other	3 to 15 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The unrestricted fund deficit in the Local Development Finance Authority is due to debt issued for assets constructed and subsequently transferred to the City. Tax captures in future years are intended to pay the related debt service.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2005		\$ (67,255)
Current year building permit revenue		342,615
Related expenses:		
Direct costs	\$ 372,627	
Estimated indirect costs	<u>27,947</u>	
Total construction code expenses		<u>400,574</u>
Current year expenditures in excess of revenue		<u>(57,959)</u>
Cumulative shortfall at June 30, 2006		<u>\$ (125,214)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has designated eight banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$4,067,289 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The total amount of bank deposits (certificates of deposit, checking, and savings accounts) insured at year end was \$400,000. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component unit does not have a deposit policy for custodial credit risk. At year end, the component unit had \$465,430 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The component unit believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the component unit evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Brighton, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy generally restricts investment maturities to two years or less. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. agency securities	\$ 1,599,159	77 days

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Interlocal Agreement Fund	\$ 501,592	Aaa	Moody's
Bank investment pools	729,169	A-1	S&P

Note 4 - Receivables

Receivables as of year end for the City, including the applicable allowances for uncollectible accounts, are as follows:

	Primary Government						
	Governmental Activities						
	General Fund	Major Street Fund	Local Street Fund	Total	Business-type Activities	Total	Component Units
Receivables:							
Taxes	\$ 70,692	\$ -	\$ -	\$ 70,692	\$ -	\$ 70,692	\$ -
Customer	-	-	-	-	779,376	779,376	14,057
Special assessments	-	2,882,263	-	2,882,263	217,491	3,099,754	-
Intergovernmental	169,927	51,485	16,867	238,279	-	238,279	-
Net receivables	\$ 240,619	\$ 2,933,748	\$ 16,867	\$ 3,191,234	\$ 996,867	\$ 4,188,101	\$ 14,057

City of Brighton, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Receivables (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the only component of deferred revenue was as follows:

	Unavailable
Delinquent property taxes	\$ 70,692
Special assessments	<u>2,882,263</u>
Total	<u>\$ 2,952,955</u>

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Governmental Activities				
Capital assets not being depreciated -				
Land, including right-of-ways	\$ 13,530,821	\$ -	\$ -	\$ 13,530,821
Capital assets being depreciated:				
Roads and sidewalks	21,393,668	1,148,403	-	22,542,071
Buildings and improvements	4,501,400	1,755,953	-	6,257,353
Equipment and other	<u>3,243,209</u>	<u>146,838</u>	<u>204,109</u>	<u>3,185,938</u>
Subtotal	29,138,277	3,051,194	204,109	31,985,362
Accumulated depreciation:				
Roads and sidewalks	7,799,792	987,777	-	8,787,569
Buildings and improvements	1,339,045	111,063	-	1,450,108
Equipment and other	<u>1,868,333</u>	<u>284,230</u>	<u>156,559</u>	<u>1,996,004</u>
Subtotal	<u>11,007,170</u>	<u>1,383,070</u>	<u>156,559</u>	<u>12,233,681</u>
Net capital assets being depreciated	<u>18,131,107</u>	<u>1,668,124</u>	<u>47,550</u>	<u>19,751,681</u>
Net capital assets	<u>\$ 31,661,928</u>	<u>\$ 1,668,124</u>	<u>\$ 47,550</u>	<u>\$ 33,282,502</u>

City of Brighton, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Capital assets not being depreciated:				
Land	\$ 157,362	\$ -	\$ -	\$ 157,362
Construction in progress	32,858	9,565	32,858	9,565
Subtotal	190,220	9,565	32,858	166,927
Capital assets being depreciated:				
Water and sewer transmission lines	21,980,111	825,567	-	22,805,678
Retention/Equalization basin	3,061,280	532,964	-	3,594,244
Buildings/Treatment facilities	29,716,317	86,748	-	29,803,065
Machinery and equipment	1,083,388	219,863	-	1,303,251
Subtotal	55,841,096	1,665,142	-	57,506,238
Accumulated depreciation:				
Water and sewer transmission lines	5,994,193	554,906	-	6,549,099
Retention/Equalization basin	328,410	78,673	-	407,083
Buildings/Treatment facilities	8,559,444	742,710	-	9,302,154
Machinery and equipment	703,973	79,784	-	783,757
Subtotal	15,586,020	1,456,073	-	17,042,093
Net capital assets being depreciated	40,255,076	209,069	-	40,464,145
Net capital assets	\$ 40,445,296	\$ 218,634	\$ 32,858	\$ 40,631,072

City of Brighton, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

Capital asset activity for the City of Brighton's component units for the year was as follows:

Component Units	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Capital assets not being depreciated:				
Land	\$ 578,764	\$ -	\$ -	\$ 578,764
Construction in progress	13,476	-	13,476	-
Subtotal	592,240	-	13,476	578,764
Capital assets being depreciated:				
Buildings	1,689,164	661,763	-	2,350,927
Equipment and other	3,566,146	10,743	-	3,576,889
Subtotal	5,255,310	672,506	-	5,927,816
Accumulated depreciation:				
Buildings	925,981	233,460	-	1,159,441
Equipment and other	13,686	3,214	-	16,900
Subtotal	939,667	236,674	-	1,176,341
Net capital assets being depreciated	4,315,643	435,832	-	4,751,475
Net capital assets	<u>\$ 4,907,883</u>	<u>\$ 435,832</u>	<u>\$ 13,476</u>	<u>\$ 5,330,239</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 86,197
Public safety	93,295
Public services	1,200,037
Community development	3,541
Total governmental activities	<u>\$ 1,383,070</u>

Depreciation expense for business-type activities was \$1,456,073.

City of Brighton, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

Construction Commitments - The City has active construction projects at year end. The projects include unspent bond proceeds. At year end, the City's commitments with contractors are as follows:

Project Description	Spent to Date	Remaining Commitment
Madison Street Project	\$ 86,094	\$ 645,402
Police and DPS Building Expansion Project	1,933,739	5,000
Total	<u>\$ 2,019,833</u>	<u>\$ 650,402</u>

In addition, the City has committed to two construction projects that are scheduled to begin subsequent to year end, as follows:

	Commitment
East Grand River Ave. Improvement Project	\$ 1,160,000
Sewer Lift Stations and Monitoring System	718,000
Total	<u>\$ 1,878,000</u>

Note 6 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Street Non-Voted Debt Fund	\$ 225,995
General Fund	Street Voted Debt Fund	407,925
General Fund	Capital Improvement Fund	334,213
General Fund	Building Authority Fund	103,275
General Fund	Principal Shopping District Fund	100,000
Major Street Fund	Street Non-voted Debt Fund	362,346
Major Street Fund	Local Street Fund	40,000
Total		<u>\$ 1,573,754</u>

The transfers from the General Fund to the Street Debt Funds, Building Authority Fund, and Capital Improvement Fund represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations.

City of Brighton, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt

Outstanding Debt

The following is a summary of the debt outstanding of the City as of June 30, 2006:

	Governmental Activities	Business-type Activities
Capital Improvement Bonds General Obligation Limited Tax, 3.00% to 4.60%, dated June 1, 2005; maturing October 2025	\$ 3,000,000	\$ -
Capital Improvement Bonds General Obligation Limited Tax, 3.00% to 4.60%, dated November 1, 2004; maturing October 2026	1,935,000	215,000
Capital Improvement Bonds General Obligation Limited Tax, 3.00% to 4.60%, dated August 13, 2003; maturing in April 2018	490,000	-
Capital Improvement Limited Tax Bond, Limited Tax, 4.00% to 6.00%, dated March 3, 2006, maturing October 2025	608,000	192,000
Special Assessment Limited Tax Bond, 3.50% to 5.00%, dated May 29, 2002; maturing in October 2021	3,025,000	-
Street Bonds General Obligation Limited Tax, 3.50% to 5.00%, dated May 29, 2002; maturing in October 2021	370,000	-
Special Assessment Limited Tax Street Bond, 4.75% to 5.60%, dated October 1, 1994; maturing October 2008	165,000	-
Street Bonds General Obligation Unlimited Tax, 5.00% to 5.80%, dated June 1, 1996; maturing in October 2011	1,100,000	-
Building Authority General Obligation Limited Tax, 5.00% to 5.90%, dated August 1, 1996; maturing in November 2015	900,000	-
Street Bonds General Obligation Unlimited Tax, 4.40% to 4.75%, dated October 1, 1996; maturing in November 2012	1,400,000	-
1999 Michigan Transportation Fund Bonds, 5.00% to 7.00%, dated September 1, 1999; maturing in August 2013	245,000	-
Installment loan - Property, 5.10%, dated April 6, 1999; maturing February 2007	60,798	-

City of Brighton, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

Outstanding Debt (Continued)

	Governmental Activities	Business-type Activities
2004 Drinking Water Revolving Funds, 2.125%, dated March 25, 2004; maturing October 2023	\$ -	\$ 1,395,000
1995 Special Assessment Bonds, 5.00% to 5.50%, dated July 1, 1993; maturing April 2012	-	210,000
Contract Payable - Livingston County Water Supply System, 6.00%, dated December 1, 1997; maturing December 2016	-	189,200
Contract Payable - Livingston County Water Project, 5.20% to 7.20%, dated September 1, 1988; maturing October 2009	-	600,000
Contract Payable - Livingston County Water Supply System, 4.20% to 5.00%, dated September 1, 1988; maturing November 2015	-	980,000
Contract Payable - Livingston County Water Supply System, 5.00% to 6.50%, dated December 1, 1999; maturing November 2020	-	1,075,000
Michigan Municipal Bond Authority - Wastewater Plant Expansion Revenue Bonds, 3.50% to 5.38 %, dated March 29, 2001; maturing November 2020	-	8,348,080
Compensated absences	<u>626,868</u>	<u>110,374</u>
Total	<u>\$ 13,925,666</u>	<u>\$ 13,314,654</u>

Note 7 - Long-term Debt (Continued)

Outstanding Debt (Continued)

The following is a summary of the debt outstanding of the component units as of June 30, 2006:

	<u>Component Units</u>
2002 Downtown Development Bonds General Obligation Limited Tax, 2.00% to 4.00%, dated November 1, 2002	\$ 2,500,000
2004 Local Development Bonds General Obligation Limited Tax, 4.50% to 4.90%, dated May 29, 2002	535,000
1995 Downtown Development Bonds General Obligation Limited Tax, 6.00% to 6.40%, dated October 1, 1996	500,000
Local Development Bonds General Obligation Limited Tax, 5.10% to 5.70%, dated October 1, 1996	195,000
Downtown Development Bonds General Obligation Limited Tax, 4.25% to 7.25%, dated September 1, 1998	<u>650,000</u>
Total	<u>\$ 4,380,000</u>

City of Brighton, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2006:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds and notes payable	\$ 10,113,239	\$ 608,000	\$ (612,441)	\$ 10,108,798	\$ 564,798
Special assessment bonds	3,425,000	-	(235,000)	3,190,000	230,000
Compensated absences	594,133	32,735	-	626,868	87,592
Total governmental activities	<u>\$ 14,132,372</u>	<u>\$ 640,735</u>	<u>\$ (847,441)</u>	<u>\$ 13,925,666</u>	<u>\$ 882,390</u>
Business-type Activities					
General obligation bonds and notes payable	\$ 13,766,400	\$ 192,000	\$ (964,120)	\$ 12,994,280	\$ 713,200
Special assessment bonds	245,000	-	(35,000)	210,000	35,000
Compensated absences	106,539	3,835	-	110,374	-
Total business-type activities	<u>\$ 14,117,939</u>	<u>\$ 195,835</u>	<u>\$ (999,120)</u>	<u>\$ 13,314,654</u>	<u>\$ 748,200</u>
Component Unit - General obligation bonds and notes payable	<u>\$ 4,709,294</u>	<u>\$ -</u>	<u>\$ (329,294)</u>	<u>\$ 4,380,000</u>	<u>\$ 320,000</u>

Debt Service Requirements

The annual requirements to service all debt outstanding of the City as of June 30, 2006 (excluding sick and vacation benefits), including both principal and interest, are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 794,798	\$ 577,000	\$ 1,371,798	\$ 748,200	\$ 585,617	\$ 1,333,817
2008	759,000	539,861	1,298,861	793,200	557,307	1,350,507
2009	839,000	504,119	1,343,119	848,200	516,025	1,364,225
2010	911,500	464,723	1,376,223	905,700	477,175	1,382,875
2011	971,500	422,465	1,393,965	760,700	440,676	1,201,376
2012-2016	3,813,000	1,532,996	5,345,996	4,183,000	1,663,858	5,846,858
2017-2021	2,875,000	835,909	3,710,909	4,547,200	636,150	5,183,350
2022-2026	2,177,500	270,126	2,447,626	402,500	27,976	430,476
2027-2031	157,500	3,740	161,240	15,580	416	15,996
Total	<u>\$ 13,298,798</u>	<u>\$ 5,150,939</u>	<u>\$ 18,449,737</u>	<u>\$ 13,204,280</u>	<u>\$ 4,905,200</u>	<u>\$ 18,109,480</u>

City of Brighton, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

Debt Service Requirements (Continued)

The annual requirements to service all debt outstanding of the component units as of June 30, 2006, including both principal and interest, are as follows:

	Component Units		
	Principal	Interest	Total
2007	\$ 320,000	\$ 187,194	\$ 507,194
2008	370,000	174,595	544,595
2009	400,000	159,114	559,114
2010	430,000	142,491	572,491
2011	455,000	124,094	579,094
2012-2016	2,095,000	308,879	2,403,879
2017-2021	180,000	59,244	239,244
2022-2026	<u>130,000</u>	<u>11,123</u>	<u>141,123</u>
Total	<u>\$ 4,380,000</u>	<u>\$ 1,166,734</u>	<u>\$ 5,546,734</u>

Description of Long-term Debt

Primary Government - The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2006, \$200,000 of bonds outstanding is considered defeased.

City of Brighton, Michigan

Notes to Financial Statements June 30, 2006

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Activities	Business- type Activities	Total	Component Units
Unspent bond proceeds and related interest	\$ 424,910	\$ 134,182	\$ 559,092	\$ -

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for health and disability claims and participates in the Michigan Municipal League risk pool for claims relating to general liability, property, and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Defined Benefit Pension Plan

Plan Description - The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the MERS for these employees was established by negotiation with the City's competitive bargaining units and requires no contribution from the employees. The funding policy provides for periodic employer contributions at actuarially determined rates.

City of Brighton, Michigan

Notes to Financial Statements June 30, 2006

Note 10 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2006, the City's annual pension cost of \$405,227 for the plan was equal to or greater than the City's required actuarial contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 12.90 percent per year, and (c) 2.0 percent to 2.5 percent per year cost of living adjustments for certain retirees. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 30 years.

	Fiscal Year Ended June 30		
	2004	2005	2006
Annual pension costs (APC)	\$ 317,433	\$ 354,642	\$ 405,227
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None
	Valuation dated December 31		
	2003	2004	2005
Actuarial value of assets	\$ 5,109,015	\$ 5,669,826	\$ 6,301,994
Actuarial accrued liability (AAL)			
(entry age)	\$ 6,974,789	\$ 8,049,881	\$ 9,285,361
Unfunded AAL (UAAL)	\$ 1,865,774	\$ 2,380,055	\$ 2,983,367
Funded ratio	73%	70%	68%
Covered payroll	\$ 2,821,164	\$ 2,958,240	\$ 3,029,692
UAAL as a percentage of covered payroll	66%	80%	98%

Note 11 - Other Postemployment Benefits

The City provides postemployment health benefits to all full-time employees upon retirement, in accordance with City policy. Currently, 17 retirees are eligible for postemployment health benefits. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health benefits are recognized in the General Fund and Utility Fund as the insurance premiums become due; during the year, this amounted to approximately \$209,000.

Note 11 - Other Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Required Supplemental Information

City of Brighton, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Revenue				
Property taxes	\$ 5,675,661	\$ 5,650,000	\$ 5,654,956	\$ 4,956
State-shared	615,141	611,000	613,149	2,149
Charges for services	223,972	257,000	254,030	(2,970)
Fines and penalties	278,900	295,000	275,746	(19,254)
Licenses and permits	407,600	417,000	436,827	19,827
Interest	75,050	200,000	222,352	22,352
Other	178,476	207,000	233,638	26,638
Total revenue	7,454,800	7,637,000	7,690,698	53,698
Expenditures				
General government:				
City council	67,654	65,000	57,129	7,871
City manager	104,804	106,000	97,689	8,311
City clerk	209,956	206,000	191,598	14,402
Legal services	170,403	159,600	159,525	75
Personnel	70,097	83,000	82,045	955
Finance	325,802	474,000	456,917	17,083
Information technology	227,744	229,000	225,247	3,753
Postemployment benefits	485,711	192,000	189,081	2,919
Other agencies	135,194	134,793	157,833	(23,040)
Contingencies	6,000	5,300	5,025	275
Total general government	1,803,365	1,654,693	1,622,089	32,604
Public safety - Police department	1,854,194	2,038,000	1,982,940	55,060
Public services	1,961,645	1,997,098	1,957,016	40,082
Community development	546,355	585,000	580,886	4,114
Total expenditures	6,165,559	6,274,791	6,142,931	131,860
Other Financing Uses - Transfers to other funds and component units	(1,161,207)	(1,261,207)	(1,171,408)	89,799
Net Change in Fund Balance	128,034	101,002	376,359	275,357
Fund Balance - Beginning of year	2,303,936	2,303,936	2,303,936	-
Fund Balance - End of year	<u>\$ 2,431,970</u>	<u>\$ 2,404,938</u>	<u>\$ 2,680,295</u>	<u>\$ 275,357</u>

City of Brighton, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Street Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Revenue				
State-shared	\$ 326,000	\$ 326,000	\$ 311,806	\$ (14,194)
Special assessments	228,202	228,202	230,836	2,634
Fines and penalties	750	750	377	(373)
Licenses and permits	22,304	22,304	25,514	3,210
Interest	179,345	179,345	245,979	66,634
Total revenue	756,601	756,601	814,512	57,911
Expenditures				
Administration	126,732	123,732	32,817	90,915
Street construction	2,150,000	2,256,500	962,532	1,293,968
Routine maintenance	125,665	125,665	152,082	(26,417)
Trust maintenance	59,974	59,974	8,032	51,942
Traffic service	52,271	52,271	38,530	13,741
Winter maintenance	64,246	64,246	63,323	923
Total expenditures	2,578,888	2,682,388	1,257,316	1,425,072
Other Financing Sources (Uses)				
Operating transfers in	-	-	-	-
Operating transfers out	(422,222)	(422,222)	(402,346)	19,876
Issuance of debt	2,259,000	2,259,000	384,000	(1,875,000)
Bond discount	-	-	(3,840)	(3,840)
Total other financing sources (uses)	1,836,778	1,836,778	(22,186)	(1,858,964)
Net Change in Fund Balance	14,491	(89,009)	(464,990)	(375,981)
Fund Balance - Beginning of year	2,238,803	2,238,803	2,238,803	-
Fund Balance - End of year	<u>\$ 2,253,294</u>	<u>\$ 2,149,794</u>	<u>\$ 1,773,813</u>	<u>\$ (375,981)</u>

City of Brighton, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds (Continued) Local Street Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Revenue				
State-shared	\$ 107,000	\$ 107,000	\$ 102,148	\$ (4,852)
Fines and penalties	750	750	377	(373)
Licenses and permits	3,000	3,000	65	(2,935)
Interest	1,000	1,000	774	(226)
Total revenue	111,750	111,750	103,364	(8,386)
Expenditures				
Administration	3,421	3,421	3,599	(178)
Routine maintenance	76,894	76,894	76,894	-
Trust maintenance	8,824	8,824	5,185	3,639
Traffic service	38,024	38,024	38,267	(243)
Winter maintenance	47,238	47,238	47,193	45
Total expenditures	174,401	174,401	171,138	3,263
Other Financing Sources - Operating transfers in	40,000	40,000	40,000	-
Net Change in Fund Balance	(22,651)	(22,651)	(27,774)	(5,123)
Fund Balance - Beginning of year	64,006	64,006	64,006	-
Fund Balance - End of year	<u>\$ 41,355</u>	<u>\$ 41,355</u>	<u>\$ 36,232</u>	<u>\$ (5,123)</u>

City of Brighton, Michigan

Notes to Required Supplemental Information June 30, 2006

Capital Improvement Fund Budget - The Council adopted a budget for the Capital Improvement Fund based on total expenditures. The original and amended budgeted expenditures were \$1,917,605 and \$2,369,544, respectively. Actual expenditures were \$2,233,689.

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. The City's budget is prepared in compliance with the uniform budgeting provisions of Michigan law.

Expenditures are authorized via an annual budget passed by resolution in which the Council authorizes the level of funding for City operations. The Council adopts an activity level budget which is considered the maximum authorization to incur liabilities and not a mandate to spend. No obligation shall be incurred against, and no payment shall be made from, any appropriation account that lacks a sufficient balance available to meet the obligation.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as designations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Budgetary Process - The City's annual budget process for the subsequent year begins soon after the audited annual financial report for the prior year is presented to the City Council. After the audit presentation, the City Council holds an annual fall goal-setting retreat, which results in the establishment of the City's goals and objectives for the following year. Soon after the Council's annual goal setting retreat, staff prepares a six-year Capital Improvement Program (CIP), which is reviewed by the Planning Commission and adopted by the City Council in February. The first year of the adopted six-year CIP is then considered for inclusion in the next year's requested budget document. In January of each year, staff begins developing the operating budget for the next year. In March of each year, the City Manager presents to the City Council the manager's recommended budget for the next year. In April and May of each year, the City Council reviews the manager's recommended budget, makes changes at their discretion, holds a public hearing, and ultimately adopts the City budget for the fiscal year, which begins the next July 1.

Statistical and Continuing Disclosures

City of Brighton, Michigan

Statistical and Continuing Disclosures Financial Trend Information Net Assets by Component Year Ended June 30, 2006

	2004	2005	2006
Governmental Activities			
Invested in capital assets - Net of related debt	22,255,092	21,091,689	20,408,614
Restricted	1,057,616	4,324,672	4,753,721
Unrestricted	4,104,363	1,607,231	1,843,363
Total net assets	27,417,071	27,023,592	27,005,698
Business-type Activities			
Invested in capital assets - Net of related debt	24,979,909	26,433,896	27,426,792
Unrestricted	5,791,516	4,690,079	3,861,279
Total net assets	30,771,425	31,123,975	31,288,071
Primary Government in Total			
Invested in capital assets - Net of related debt	47,235,001	47,525,585	47,835,406
Restricted	1,057,616	4,324,672	4,753,721
Unrestricted	9,895,879	6,297,310	5,704,642
Total net assets	<u>\$ 58,188,496</u>	<u>\$ 58,147,567</u>	<u>\$ 58,293,769</u>

City of Brighton, Michigan

Statistical and Continuing Disclosures Financial Trend Information Changes in Governmental Net Assets Year Ended June 30, 2006

	2004	2005	2006
Expenses			
General government	\$ 1,636,112	\$ 1,665,151	\$ 1,929,394
Public safety	1,790,068	1,995,052	2,123,785
Public services	3,159,268	3,578,053	3,437,104
Community development	613,794	636,678	584,427
Interest on long-term debt	457,190	496,697	570,384
Total governmental activities	7,656,432	8,371,631	8,645,094
Program Revenues			
Charges for services	1,003,435	1,048,700	992,936
Operating grants and contributions	699,588	423,000	413,954
Capital grants and contributions	10,812	14,325	179,208
Total program revenue	1,713,835	1,486,025	1,586,098
Net Revenue	(5,942,597)	(6,885,606)	(7,058,996)
General Revenues			
Property taxes	4,946,662	5,228,267	5,654,956
State-shared revenues	625,134	624,339	613,149
Investment earnings	255,485	322,100	494,997
Other	289,143	317,421	278,000
Transfers	249,708	-	-
Total general revenues	6,366,132	6,492,127	7,041,102
Change in Net Assets	<u>\$ 423,535</u>	<u>\$ (393,479)</u>	<u>\$ (17,894)</u>

City of Brighton, Michigan

Statistical and Continuing Disclosures Financial Trend Information Changes in Business-type Net Assets Year Ended June 30, 2006

	Year Ended June 30		
	2004	2005	2006
Operating Revenue			
Sales	\$ 2,107,713	\$ 2,224,214	\$ 2,455,922
Penalties	31,957	31,420	36,214
Tap charges and other	462,928	432,265	407,793
Total operating revenue	2,602,598	2,687,899	2,899,929
Operating Expenses			
Salaries and fringe benefits	1,255,299	1,203,460	1,254,269
Other purchased services	282,168	449,515	391,987
Purchased property services	103,616	136,611	121,291
Professional and technical services	100,010	78,255	86,569
Supplies	172,531	158,723	110,149
Depreciation	1,320,638	1,429,624	1,456,073
Amortization	26,529	28,033	28,225
Property	53,745	45,311	12,230
Utilities	280,161	278,116	286,684
Other	2,576	2,603	3,670
Total operating expenses	3,597,273	3,810,251	3,751,147
Operating Loss	(994,675)	(1,122,352)	(851,218)
Nonoperating Revenue (Expenses)			
Investment income	55,679	90,298	156,814
Interest expense	(660,417)	(643,587)	(614,014)
Total nonoperating expense	(604,738)	(553,289)	(457,200)
Loss - Before operating transfers and contributions	(1,599,413)	(1,675,641)	(1,308,418)
Operating Transfers - Transfers out	(249,708)	-	-
Contributions	2,623,148	2,028,191	1,467,534
Change in Net Assets	<u>\$ 774,027</u>	<u>\$ 352,550</u>	<u>\$ 159,116</u>

City of Brighton, Michigan

	June 30			
	1997	1998	1999	2000
General Fund				
Reserved	\$ -	\$ -	\$ -	\$ -
Unreserved	<u>1,965,486</u>	<u>2,435,848</u>	<u>2,322,069</u>	<u>2,538,712</u>
Total General Fund	1,965,486	2,435,848	2,322,069	2,538,712
All Other Governmental Funds				
Unreserved - Reported in:				
Special Revenue Funds	387,582	318,159	399,637	494,451
Capital Project Funds	902,589	1,810,948	1,123,957	950,649
Debt Service Funds	<u>-</u>	<u>2,685</u>	<u>-</u>	<u>7,114</u>
Total all other governmental funds	<u>1,290,171</u>	<u>2,131,792</u>	<u>1,523,594</u>	<u>1,452,214</u>
Total	<u>\$ 3,255,657</u>	<u>\$ 4,567,640</u>	<u>\$ 3,845,663</u>	<u>\$ 3,990,926</u>

Statistical and Continuing Disclosures
Financial Trend Information
Fund Balances
Governmental Funds
Year Ended June 30, 2006

June 30					
2001	2002	2003	2004	2005	2006
\$ -	\$ 2,060	\$ 2,082	\$ 329,748	\$ 329,763	\$ 329,777
2,007,424	2,174,337	1,702,626	1,647,746	1,974,173	2,350,518
2,007,424	2,176,397	1,704,708	1,977,494	2,303,936	2,680,295
309,907	3,810,887	1,110,089	727,868	2,302,809	1,909,744
440,100	-	-	67,575	1,842,217	234,423
-	2,380	-	-	-	-
750,007	3,813,267	1,110,089	795,443	4,145,026	2,144,167
\$ 2,757,431	\$ 5,989,664	\$ 2,814,797	\$ 2,772,937	\$ 6,448,962	\$ 4,824,462

City of Brighton, Michigan

	Year Ended			
	1997	1998	1999	2000
Revenue				
Property taxes	\$ 3,039,915	\$ 3,314,991	\$ 3,776,513	\$ 4,006,713
State-shared	870,221	979,555	1,009,444	1,034,213
Federal grants	387,080	123,782	24,713	43,217
Charges for services	202,034	184,326	312,255	341,046
Special assessment	75,000	70,000	60,000	60,000
Fines and penalties	53,597	71,604	60,239	71,762
Licenses and permits	330,351	396,178	287,421	409,518
Interest	329,584	362,222	321,655	365,058
Other	457,796	224,120	185,819	466,460
Total revenue	5,745,578	5,726,778	6,038,059	6,797,987
Expenditures				
Current:				
General government	735,306	832,801	1,022,801	1,228,203
Community development	415,715	490,558	513,777	674,927
Public safety	1,176,775	1,276,498	1,409,594	1,661,139
Public services - Operating	1,259,655	1,311,280	1,531,113	1,540,565
Public services - Capital (streets)	1,651,479	1,427,887	1,327,223	909,472
Capital outlay (exclusive of streets)	2,041,001	437,280	627,909	553,149
Debt service	526,055	551,225	661,122	743,201
Total expenditures	7,805,986	6,327,529	7,093,539	7,310,656
Excess of Expenditures Over Revenue	(2,060,408)	(600,751)	(1,055,480)	(512,669)
Other Financing Sources (Uses)				
Transfers in	3,684,879	1,505,630	1,830,261	1,542,107
Transfers out	(3,726,121)	(1,568,626)	(1,873,274)	(1,629,619)
Issuance of debt - Net	1,200,000	1,975,730	376,516	745,444
Total other financing sources (uses)	1,158,758	1,912,734	333,503	657,932
Net Change in Fund Balances	(901,650)	1,311,983	(721,977)	145,263
Fund Balances - Beginning of year	4,157,307	3,255,657	4,567,640	3,845,663
Fund Balances - End of year	<u>\$ 3,255,657</u>	<u>\$ 4,567,640</u>	<u>\$ 3,845,663</u>	<u>\$ 3,990,926</u>
Debt Service as a Percentage of Noncapital Expenditures	15%	14%	15%	15%

Statistical and Continuing Disclosures
Financial Trend Information
Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2006

June 30

2001	2002	2003	2004	2005	2006
\$ 4,334,464	\$ 4,645,795	\$ 4,618,690	\$ 4,946,662	\$ 5,228,267	\$ 5,654,956
1,108,794	1,151,811	1,083,263	1,063,279	1,043,420	1,027,103
56,105	406,997	10,000	261,443	3,919	-
201,903	229,908	229,526	399,748	220,318	254,030
60,000	182,162	234,987	273,234	231,517	230,836
82,249	85,707	86,141	100,484	290,546	276,500
332,080	357,179	365,657	429,986	521,237	462,406
352,751	181,986	198,184	255,485	322,145	494,997
443,544	360,415	302,797	362,361	334,008	278,000
6,971,890	7,601,960	7,129,245	8,092,682	8,195,377	8,678,828
1,549,515	1,338,917	1,416,735	1,507,881	1,588,897	1,622,722
643,497	664,513	532,158	610,250	633,141	580,886
1,470,982	1,395,203	1,506,373	1,675,356	1,877,046	1,982,940
1,502,967	1,815,027	1,982,612	2,171,842	2,366,576	2,422,938
1,554,436	1,511,099	3,802,354	1,518,689	856,361	962,532
788,788	680,576	428,562	436,533	885,692	1,917,129
819,082	910,764	1,086,902	1,296,437	1,277,822	1,416,101
8,329,267	8,316,099	10,755,696	9,216,988	9,485,535	10,905,248
(1,357,377)	(714,139)	(3,626,451)	(1,124,306)	(1,290,158)	(2,226,420)
2,316,051	1,841,494	2,860,615	1,929,642	1,431,716	1,573,754
(2,735,042)	(1,848,643)	(2,106,293)	(1,679,934)	(1,431,716)	(1,573,754)
542,873	3,953,521	-	530,000	4,966,183	601,920
123,882	3,946,372	754,322	779,708	4,966,183	601,920
(1,233,495)	3,232,233	(2,872,129)	(344,598)	3,676,025	(1,624,500)
3,990,926	2,757,431	5,989,664	3,117,535	2,772,937	6,448,962
<u>\$ 2,757,431</u>	<u>\$ 5,989,664</u>	<u>\$ 3,117,535</u>	<u>\$ 2,772,937</u>	<u>\$ 6,448,962</u>	<u>\$ 4,824,462</u>
16%	17%	20%	22%	20%	21%

City of Brighton, Michigan

Ad Valorem Taxable Value by Property Type							
Real Property							
Tax Year	Year Ended June 30	Residential	Commercial	Industrial	Personal Property	Total Taxable Value	City Tax Millage
1996	1997	\$ 96,004,100	\$ 62,732,900	\$ 10,535,800	\$ 21,262,900	\$ 190,535,700	16.7100
1997	1998	104,859,100	64,723,900	12,117,700	23,165,500	204,866,200	17.0020
1998	1999	112,623,200	73,906,000	12,395,400	23,822,200	222,746,800	17.7022
1999	2000	125,684,500	79,495,000	13,258,800	25,573,000	244,011,300	17.5783
2000	2001	136,401,100	83,626,800	14,399,700	27,862,700	262,290,300	17.4689
2001	2002	150,972,300	92,092,100	14,448,400	31,058,900	288,571,700	17.1149
2002	2003	163,674,700	102,640,100	14,880,600	29,566,500	310,761,900	15.9864
2003	2004	174,972,500	108,478,900	15,469,300	29,769,800	328,690,500	16.0494
2004	2005	191,737,300	114,550,700	17,609,700	30,625,900	354,523,600	15.9300
2005	2006	207,300,655	123,326,800	18,942,000	36,392,200	385,961,655	15.9418

Note: Under Michigan law, the revenue base is referred to as "taxable value." This amount represents assessed value (50 percent of true cash value limited for each property by the lower of 5 percent or inflation).

Taxes levied in a particular "tax year" become revenue of the subsequent fiscal year.

Statistical and Continuing Disclosures
Revenue Capacity Information
Taxable Value and Actual Value of Taxable Property
Year Ended June 30, 2006

Assessed Value	Estimated Actual Vaue	Taxable Value as a Percent of Assessed Value	Taxable Value as a Percent of Actual	IFT Value	City Levy
\$ 202,159,500	\$ 404,319,000	94	47	\$ 1,575,800	\$ 3,183,852
217,035,200	434,070,400	94	47	4,188,400	3,483,135
240,722,000	481,444,000	93	46	5,034,250	3,943,108
271,042,700	542,085,400	90	45	6,586,900	4,289,304
292,188,300	584,376,600	90	45	17,501,200	4,581,923
346,948,700	693,897,400	83	42	12,176,700	4,938,876
371,088,100	742,176,200	84	42	12,107,800	4,967,964
396,171,700	792,343,400	83	41	11,967,600	5,275,285
428,528,700	857,057,400	83	41	12,945,700	5,647,561
474,639,350	949,278,700	81	41	14,956,550	6,152,924

City of Brighton, Michigan

Tax Year	Millage Rates - Direct City Taxes				Overlapping	
	Year Ended June 30	City Operating	City Debt	Total Direct City Tax Rates	Livingston County	Brighton District Library
1996	1997	16.2500	0.4600	16.7100	5.0720	1.2300
1997	1998	16.2500	0.7520	17.0020	4.7637	1.1500
1998	1999	16.2500	1.4522	17.7022	4.7304	1.0638
1999	2000	16.2500	1.3283	17.5783	4.4661	1.0261
2000	2001	16.1192	1.3497	17.4689	4.3787	1.0083
2001	2002	15.8872	1.2277	17.1149	4.2368	0.9915
2002	2003	14.8872	1.0992	15.9864	4.2215	0.9609
2003	2004	14.8872	1.1622	16.0494	4.1454	0.9442
2004	2005	14.8872	1.0428	15.9300	3.9168	0.9059
2005	2006	14.8872	1.0546	15.9418	3.9020	0.8878

Statistical and Continuing Disclosures
Revenue Capacity Information
Direct and Overlapping Property Tax Rates
Year Ended June 30, 2006

Taxes					Total Tax Rate	
Brighton Area Fire Authority	State Education Tax	Livingston Educational Service Agency	Brighton Area Schools - Homestead	Brighton Area Schools - Non- homestead	Homestead	Non- homestead
-	6.0000	2.6670	4.7400	18.0000	36.4190	54.4190
-	6.0000	2.6502	4.7400	18.0000	36.3059	54.3059
-	6.0000	2.6192	6.6400	17.6027	38.7556	56.3583
-	6.0000	2.5714	6.6275	18.0000	38.2694	56.2694
-	6.0000	2.5213	6.6140	18.0000	37.9912	55.9912
1.0000	6.0000	2.4788	6.6016	18.0000	38.4236	56.4236
0.9906	6.0000	2.4484	6.5947	18.0000	37.2025	55.2025
0.9763	5.0000	2.4088	6.5827	18.0000	36.1068	54.1068
0.9612	6.0000	2.3824	6.1310	18.0000	36.2273	54.2273
0.9532	6.0000	2.3507	6.1203	18.0000	36.1558	54.1558

City of Brighton, Michigan

Statistical and Continuing Disclosures Revenue Capacity Information Principal Property Taxpayers Year Ended June 30, 2006

Taxpayer	2005	Percentage of Total	1996	Percentage of Total	1996 Rank
	Ad Valorem Taxable Value		Ad Valorem Taxable Value		
1 Brighton Mall Associates	\$ 7,306,100	15.58	\$ 4,372,100	2.29	2
2 Brighton Holdings LLC	6,588,800	14.05	*	*	*
3 TG Fluid Systems	5,557,400	11.85	*	*	*
4 Meijer Thrifty - Brighton	4,837,200	10.32	4,339,400	2.28	1
5 MJR Group LLC	4,683,000	9.99	*	*	*
6 Brighton Commercial LLC	3,996,300	8.52	*	*	*
7 Target Corporation	3,684,700	7.86	3,070,800	1.61	3
8 Detroit Edison Co.	3,588,100	7.65	*	*	*
9 BMH Realty, LLC	3,470,600	7.40	*	*	*
New Plan of Michigan, Inc.	3,170,700	6.76	*	*	*
Total taxable value	\$ 46,882,900		\$ 190,535,700		

* Not available

City of Brighton, Michigan

Statistical and Continuing Disclosures Revenue Capacity Information Property Tax Levies and Collections Year Ended June 30, 2006

Tax Year	Year Ended June 30	Total Ad Valorem Levy	Current Collections	Percent Collected	Delinquent Collections	Total Tax Collections	Percent of Levy Collected
1996	1997	\$ 3,183,852	\$ 2,994,744	94.06	\$ 173,826	\$ 3,168,570	99.52
1997	1998	3,483,135	3,356,349	96.36	90,910	3,447,259	98.97
1998	1999	3,943,108	3,880,807	98.42	47,894	3,928,701	99.63
1999	2000	4,289,304	4,224,106	98.48	46,554	4,270,660	99.57
2000	2001	4,581,923	4,509,987	98.43	51,893	4,561,880	99.56
2001	2002	4,938,876	4,847,013	98.14	82,157	4,929,170	99.80
2002	2003	4,967,964	4,868,108	97.99	74,980	4,943,088	99.50
2003	2004	5,275,285	5,169,780	98.00	91,371	5,261,151	99.73
2004	2005	5,647,561	5,531,786	97.95	83,912	5,615,698	99.44
2005	2006	6,152,924	6,023,669	97.90	111,197	6,134,866	99.71

City of Brighton, Michigan

	1997	1998	1999	2000
Governmental Activities				
General obligation bonds	\$ 3,803,972	\$ 5,665,008	\$ 5,496,044	\$ 5,562,228
Installment purchase agreements	188,899	102,905	429,445	727,902
Special assessment bonds	715,000	645,000	585,000	525,000
Total	4,707,871	6,412,913	6,510,489	6,815,130
Business-type Activities				
General obligation bonds	6,260,496	6,174,834	5,705,045	6,417,222
Special assessment bonds	579,568	514,941	455,000	420,000
Revenue bonds	-	-	-	-
Total	6,840,064	6,689,775	6,160,045	6,837,222
Total Debt of the Primary Government	11,547,935	13,102,688	12,670,534	13,652,352
Total Taxable Value	190,535,700	204,866,200	222,746,800	244,011,300
Ratio of Total Debt to Taxable Value	6.06%	6.40%	5.69%	5.59%
Total Population	6,330	6,425	6,550	6,701
Total Debt per Capita	\$ 1,824	\$ 2,039	\$ 1,934	\$ 2,037

Note: Does not include outstanding debt of the City's component units.

Statistical and Continuing Disclosures
Debt Capacity Information
Ratios of Outstanding Debt
Year Ended June 30, 2006

2001	2002	2003	2004	2005	2006
\$ 5,273,264	\$ 5,395,000	\$ 5,105,000	\$ 5,285,000	\$ 9,865,000	\$ 10,048,000
1,140,651	917,601	678,073	427,069	248,239	60,798
465,000	3,975,000	3,890,000	3,660,000	3,425,000	3,190,000
6,878,915	10,287,601	9,673,073	9,372,069	13,538,239	13,298,798
5,902,400	5,317,576	4,717,753	4,082,930	3,941,994	3,251,200
385,000	350,000	315,000	280,000	245,000	210,000
8,950,000	8,950,000	8,950,000	10,084,406	9,824,406	9,743,080
15,237,400	14,617,576	13,982,753	14,447,336	14,011,400	13,204,280
22,116,315	24,905,177	23,655,826	23,819,405	27,549,639	26,503,078
262,290,300	288,571,700	310,761,900	328,690,500	354,523,600	385,961,655
8.43%	8.63%	7.61%	7.25%	7.77%	6.87%
6,800	6,900	7,100	7,173	7,182	7,263
\$ 3,252	\$ 3,609	\$ 3,332	\$ 3,321	\$ 3,836	\$ 3,649

City of Brighton, Michigan

Statistical and Continuing Disclosures Debt Capacity Information Ratios of General Bonded Debt Outstanding Year Ended June 30, 2006

Fiscal Year	Tax Limited General Obligation Bonds (LTGO)	Tax Supported Bonds (UTGO)	Other General Obligation Debt	Total General Bonded Debt	Taxable Value	Debt as a Percentage of Taxable Value	Population	Debt per Capita
1997	\$1,803,972	\$ 2,000,000	\$ 188,899	\$ 3,992,871	\$ 190,535,700	2.10	6,330	\$ 631
1998	1,715,008	3,950,000	102,905	5,767,913	204,866,200	2.82	6,425	898
1999	1,621,044	3,875,000	429,445	5,925,489	222,746,800	2.66	6,550	905
2000	1,812,228	3,750,000	727,902	6,290,130	244,011,300	2.58	6,701	939
2001	1,698,264	3,575,000	1,140,651	6,413,915	262,290,300	2.45	6,800	943
2002	1,995,000	3,400,000	917,601	6,312,601	288,571,700	2.19	6,900	915
2003	1,880,000	3,225,000	678,073	5,783,073	310,761,900	1.86	7,100	815
2004	2,285,000	3,000,000	427,069	5,712,069	328,690,500	1.74	7,173	796
2005	7,090,000	2,775,000	248,239	10,113,239	354,523,600	2.85	7,182	1,408
2006	7,548,000	2,500,000	60,798	10,108,798	385,961,655	2.62	7,263	1,392

Note: Does not include outstanding debt of the City's business-type activities or component units.

City of Brighton, Michigan

Statistical and Continuing Disclosures Debt Capacity Information Direct and Overlapping Governmental Activities Debt Year Ended June 30, 2006

Governmental Unit	Debt Outstanding	Estimated Percent Applicable	Estimated Share of Overlapping Debt
Brighton Area School District	\$ 76,835,000	18.79	\$ 1,443,729,650
Livingston Educational Service Agency	3,000,000	5.67	17,010,000
Livingston County	20,286,313	4.98	101,025,839
Brighton Area District Library	<u>3,595,000</u>	19.87	<u>71,432,650</u>
Total overlapping debt	103,716,313		1,633,198,139
Direct net city debt	<u>14,590,000</u>	100.00	<u>1,459,000,000</u>
Total direct and overlapping debt	<u>\$ 118,306,313</u>		<u>\$ 3,092,198,139</u>

City of Brighton, Michigan

	1997	1998	1999	2000
Calculation of Debt Limit				
State Equalized Valuation:				
Ad Valorem	\$ 202,159,500	\$ 217,035,200	\$ 240,722,000	\$ 271,042,700
IFT	<u>1,575,800</u>	<u>4,188,400</u>	<u>5,034,250</u>	<u>6,586,900</u>
Total valuation	203,735,300	221,223,600	245,756,250	277,629,600
Debt Limit (10 percent of taxable value)	20,373,530	22,122,360	24,575,625	27,762,960
Calculation of Debt Subject to Limit				
Total debt*	14,264,863	14,101,808	14,275,644	14,910,831
Less debt not subject to limit:				
Special assessment bonds	1,195,000	1,160,000	1,040,000	945,000
MTF bonds	480,000	480,000	425,000	685,000
Revenue bonds	-	-	-	-
Share of County-issued bonds	<u>3,634,863</u>	<u>3,756,808</u>	<u>3,520,644</u>	<u>4,465,861</u>
Net debt subject to limit	<u>8,955,000</u>	<u>8,705,000</u>	<u>9,290,000</u>	<u>8,814,970</u>
Legal Debt Margin	<u>\$ 11,418,530</u>	<u>\$ 13,417,360</u>	<u>\$ 15,285,625</u>	<u>\$ 18,947,990</u>
Net Debt Subject to Limit as Percentage of Debt Limit	43.95%	39.35%	37.80%	31.75%

* Does not include installment loans

Statistical and Continuing Disclosures
Debt Capacity Information
Legal Debt Margin
Year Ended June 30, 2006

2001	2002	2003	2004	2005	2006
\$ 292,188,300	\$ 346,948,700	\$ 371,088,100	\$ 396,171,700	\$ 428,528,700	\$ 474,639,350
<u>17,501,200</u>	<u>12,176,700</u>	<u>12,107,800</u>	<u>11,967,600</u>	<u>12,945,700</u>	<u>14,956,550</u>
309,689,500	359,125,400	383,195,900	408,139,300	441,474,400	489,595,900
30,968,950	35,912,540	38,319,590	40,813,930	44,147,440	48,959,590
22,883,464	26,327,576	28,217,753	28,638,600	31,996,400	30,822,280
850,000	4,325,000	4,205,000	3,940,000	3,670,000	3,400,000
610,000	535,000	455,000	365,000	270,000	245,000
8,950,000	8,950,000	8,950,000	10,084,406	10,060,000	9,743,080
<u>4,203,464</u>	<u>3,887,576</u>	<u>3,622,753</u>	<u>3,393,600</u>	<u>3,131,400</u>	<u>2,844,200</u>
<u>8,270,000</u>	<u>8,630,000</u>	<u>10,985,000</u>	<u>10,855,594</u>	<u>14,865,000</u>	<u>14,590,000</u>
<u>\$ 22,698,950</u>	<u>\$ 27,282,540</u>	<u>\$ 27,334,590</u>	<u>\$ 29,958,336</u>	<u>\$ 29,282,440</u>	<u>\$ 34,369,590</u>
26.70%	24.03%	28.67%	26.60%	33.67%	29.80%

City of Brighton, Michigan

Water and Sewer Revenue Bonds						
Fiscal Year	Gross Revenue	Applicable Expenses	Net Revenue	Debt Service		Coverage*
				Principal	Interest	
1997	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1998	-	-	-	-	-	-
1999	-	-	-	-	-	-
2000	-	-	-	-	-	-
2001	-	-	-	-	-	-
2002	2,644,179	1,718,945	925,234	-	452,951	472,283
2003	2,712,858	2,025,493	687,365	-	415,975	271,390
2004	2,658,277	2,250,106	408,171	150,000	413,350	(155,179)
2005	2,778,197	2,352,594	425,603	250,000	449,075	(273,472)
2006	3,056,743	2,266,849	789,894	315,000	424,003	50,891

* Shortfalls in revenue coverage have been subsidized by capital contributions from connection fees.

Statistical and Continuing Disclosures
Debt Capacity Information
Pledged-revenue Coverage
Year Ended June 30, 2006

Special Assessment Bonds				
Special Assessment Collections		Debt Service		
		Principal	Interest	Coverage
\$	183,589	\$ 110,000	\$ 73,194	\$ 395
	172,383	105,000	66,655	728
	176,426	95,000	60,623	20,804
	153,399	95,000	54,878	3,521
	147,515	95,000	49,233	3,282
	138,746	95,000	43,538	209
	345,089	120,000	177,804	47,286
	471,982	265,000	181,834	25,147
	450,377	270,000	170,768	9,609
	446,249	270,000	159,654	16,594

City of Brighton, Michigan

Statistical and Continuing Disclosures Demographic and Economic Information Demographic and Economic Statistics Year Ended June 30, 2006

<u>Fiscal Year</u>	<u>Population</u>	<u>Personal Income (in Thousands)</u>	<u>Per Capita Personal Income</u>	<u>Unemploy- ment Rate (Percent)</u>
1997	6,330	\$ 35,551	*	2.10
1998	6,425	35,551	*	2.00
1999	6,550	35,551	*	1.80
2000	6,701	47,897	\$ 21,007	1.80
2001	6,800	47,897	21,007	2.71
2002	6,900	47,897	22,487	4.10
2003	7,100	47,897	22,487	3.90
2004	7,173	47,897	22,808	3.60
2005	7,182	47,897	22,917	*
2006	7,263	47,897	23,251	*

* Not available/no longer available

Note: Personal income is equal to the median household income and only available per the decennial census data.

City of Brighton, Michigan

Statistical and Continuing Disclosures Demographic and Economic Information Principal Employers Year Ended June 30, 2006

Taxpayer		2006 Employees	Percentage of Total	1997 Employees	Percentage of Total	1997 Rank
1	Brighton Area Schools	860	9.33	300	4.52	2
2	Ontegra Brighton	400	4.34	100	1.51	9
3	Meijer	310	3.36	675	10.16	1
4	Target	275	2.98	190	2.86	3
5	TG Fluid Systems	267	2.90	*	-	-
6	Eberspaecher	217	2.36	-	-	-
7	VG's	153	1.66	*	-	-
8	Home Depot	150	1.63	-	-	-
9	Work Skills Corporation	150	1.63	52	0.78	*
10	Brighton Post Office	85	0.92	*	-	-
Total		<u>2,867</u>	<u>31.12</u>	<u>1,317</u>	<u>19.83</u>	
Estimated total city employment		9,214		6,641		

* Not available

City of Brighton, Michigan

Function/Program	1997	1998	1999	2000	2001
General government:					
City manager	1.00	1.00	1.00	1.00	1.00
City clerk/Human resources	2.35	2.35	2.35	2.35	2.35
Finance	<u>5.00</u>	<u>5.00</u>	<u>5.00</u>	<u>6.25</u>	<u>5.00</u>
Total general government	8.35	8.35	8.35	9.60	8.35
Community development	5.00	6.00	6.00	6.00	6.00
Public safety (police)	16.20	16.20	16.20	16.20	16.20
Public services:					
Cemetery	1.00	2.00	2.00	2.00	2.00
Facilities and grounds	-	-	-	-	-
Streets	6.00	6.00	6.00	7.00	8.00
Utilities	<u>8.00</u>	<u>8.00</u>	<u>8.00</u>	<u>8.00</u>	<u>8.00</u>
Total public services	<u>15.00</u>	<u>16.00</u>	<u>16.00</u>	<u>17.00</u>	<u>18.00</u>
Total	<u>44.55</u>	<u>46.55</u>	<u>46.55</u>	<u>48.80</u>	<u>48.55</u>

Statistical and Continuing Disclosures
Operating Information
Full-time Equivalent Government Employees
Year Ended June 30, 2006

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
1.00	1.00	1.00	1.00	1.00
2.35	2.35	2.35	2.35	2.35
<u>6.25</u>	<u>6.39</u>	<u>6.39</u>	<u>6.39</u>	<u>8.39</u>
9.60	9.74	9.74	9.74	11.74
7.00	6.00	6.00	6.00	5.00
17.60	18.60	18.60	18.60	18.60
2.00	2.00	2.00	2.00	2.00
-	2.00	2.00	2.00	3.00
9.00	9.00	9.00	9.00	8.00
<u>8.00</u>	<u>9.00</u>	<u>9.00</u>	<u>9.00</u>	<u>9.00</u>
<u>19.00</u>	<u>22.00</u>	<u>22.00</u>	<u>22.00</u>	<u>22.00</u>
<u>53.20</u>	<u>56.34</u>	<u>56.34</u>	<u>56.34</u>	<u>57.34</u>

City of Brighton, Michigan

Function/Program	1997	1998	1999	2000
Election data:				
Registered voters	4,325	4,433	4,406	4,776
Voters (at the polls or absentee)	*	*	*	*
Percent voting	*	*	*	*
Human Resource data - Number of recruitments	*	16	12	11
Finance data:				
Number of A/P checks	2,503	2,675	3,120	2,948
Number of property tax parcels	*	*	3,549	3,591
Number of utility bill customers	*	*	*	*
Police:				
Physical arrests	1,499	1,113	1,105	950
Traffic violations	2,832	3,031	3,162	2,837
Investigations	7,002	6,923	6,906	6,901
Community development data:				
Number of building permits	244	246	329	307
Value of building permits	\$ 14,906,808	\$ 13,922,982	\$ 30,177,435	\$ 14,365,383
Number of building inspections	828	1,080	1,070	1,370
Public works data:				
Miles of street constructed, reconstructed, and resurfaced	10.00	7.50	4.30	2.60
Road salt used (tons)	*	1,294	899	998
R.O.W. tree plantings	-	-	140	150
Grave openings	*	*	55	62
Water data:				
Total billed consumption (000's)	300,290	312,899	*	*
Avg. billed consump./user (000's)	*	*	*	*
Number of water main breaks	3	-	2	1
Sewer data - Avg. daily treatment (MGD)	0.964	1.090	1.198	1.110

* Not available

Statistical and Continuing Disclosures
Operating Information
Operating Indicators
Year Ended June 30, 2006

2001	2002	2003	2004	2005	2006
4,990	5,003	5,065	5,039	5,333	5,380
3,274	373	2,645	388	4,018	992
65.61%	7.46%	52.22%	7.70%	75.34%	18.44%
20	17	16	17	16	17
2,721	2,806	2,854	2,884	2,915	2,831
3,658	3,724	3,869	3,863	3,949	4,093
*	3,073	3,168	3,248	3,218	3,318
1,159	1,135	1,102	901	1,113	1,028
3,129	3,348	3,406	3,248	4,234	3,912
8,245	8,744	8,306	9,363	11,722	10,382
348	326	342	362	352	386
\$ 19,376,387	\$ 27,560,351	\$ 30,976,003	\$ 36,151,757	\$ 23,223,783	\$ 14,315,439
1,287	1,189	1,274	785	1,073	1,083
5.47	5.32	5.35	1.32	0.67	0.75
1,000	1,100	650	950	1,100	1,550
235	50	40	-	80	54
64	46	53	49	94	60
391,693	457,908	462,355	463,403	467,964	508,125
*	149	159	148	141	152
1	-	1	1	2	2
1.120	1.224	1.207	1.172	1.368	1.360

City of Brighton, Michigan

Function/Program	1997	1998	1999	2000	2001
Police - Patrol units	8	8	8	8	8
Public works:					
Streets (miles):					
Major streets	10.40	10.40	10.40	10.40	10.40
Local streets	13.10	13.10	13.10	13.10	13.10
Water:					
Mains (miles)	*	*	*	*	*
Fire hydrants	*	*	*	*	*
Storage capacity	1,137,000,000	1,137,000,000	1,137,000,000	1,137,000,000	1,137,000,000
Sewer:					
Miles of sanitary sewers	*	*	*	*	*
Treatment capacity	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000

* Not available

Statistical and Continuing Disclosures
Operating Information
Capital Asset Statistics
Year Ended June 30, 2006

2002	2003	2004	2005	2006
8	9	10	10	10
11.32	11.32	11.32	11.32	11.32
13.10	13.10	13.10	14.99	14.99
*	*	*	50	52
*	*	*	*	572
1,137,000,000	1,137,000,000	1,137,000,000	1,620,000,000	1,620,000,000
*	*	*	45	45
1,500,000,000	2,250,000,000	2,250,000,000	2,250,000,000	2,250,000,000



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September 19, 2006

Honorable Mayor and Members
of the City Council
City of Brighton
200 North First Street
Brighton, Michigan 48116

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements for the City of Brighton for the year ended June 30, 2006. As a result of our audit, we offer the following observations and comments for your consideration:

GASB Statement No. 45

As communicated to you in our last letter, the Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. Therefore, the manner in which retiree health care benefits are budgeted will not change, unless you begin funding the benefits (however, as discussed below, there are incentives to do so).

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets.

Your "valuation" will not be required to be performed by an actuary as the total participants for the City do not exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. Although not required to be calculated by an actuary, the City may opt to (and we understand has opted to) have an actuary perform the valuation due to the work that would be required of your staff. It has been our experience that these are extremely complex calculations and the liability for most communities is substantial. Obtaining the best professional advice, in this case from an actuary, is crucial to helping you plan for this commitment.

A member of



A worldwide association of independent accounting firms

September 19, 2006

This statement is being phased in over a three-year period, similar to GASB No. 34. For the City of Brighton it is effective July 1, 2009. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months' lead time to work the numbers into the budget. Therefore, we commend city management for already beginning this process.

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. Because of this, pre-funding the contribution could actually reduce your long-run cost.

Economic Update

The future of state-shared revenues received by the City remains fragile and caution should be exercised when budgeting this line item. State-shared revenue accounts for approximately 7.9 percent of the City's total General Fund revenue, down from 8.6 percent in 2005 and 9.2 percent in 2004. There appears to be no long-term solution to the State's structural deficit in its General Fund, and as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future. Also, absent strong real job growth and continued economic recovery increasing income taxes, revenue-sharing cuts remain a possibility in future years. Adding to this fragile picture is the recent repeal of the State's single business tax with no replacement currently being considered.

With the uncertainty of state-shared revenues and other economic pressures being felt, cities are being forced to consider all options to increase revenues and/or decrease costs. Additional revenues can be found through a variety of special assessment types, certain special tax levies (some voted, some non-voted), and a variety of enforcement options for penalties and fines. Cost reductions can be found through continued utilization of technology, reduced payroll costs (through job sharing or reduced work days), increased sharing of services with neighboring communities, and deferring to the County for certain services. We would be happy to further discuss such ideas, and our experience at other communities with you.

September 19, 2006

General Accounting Issues

Journal Entries

Management has implemented a comprehensive set of internal controls over most journal entries; we noted signatures of preparer and reviewers, along with the dates. We encourage management to continue to utilize this process and to be consistent in documenting approvals. Occasionally, it is necessary for the finance director to prepare entries. In those situations, the current process does not provide for a review of those high level journal entries. While we understand that current plans for staffing levels may alleviate this situation, for the time being we feel that an enhancement to this process would be to implement a system for an independent review of those entries drafted by the finance director by another member of the finance department.

Health Care Costs

Health care costs continue to be a major concern for all organizations. The increases that continue to be seen in premiums as well as the actuarial funding of postemployment costs by GASB No. 45 continue to emphasize the importance of regularly monitoring health care options. In response to this need, Plante & Moran, PLLC does have experts from the health care industry on staff who are willing to meet with management to discuss options, including new funding tools which can be used to control costs. In an environment such as yours, where changes to health care options are subject to collective bargaining, any change usually takes some time. For this reason we recommend this issue be dealt with, and options be investigated as soon as possible.

We would like to thank the City Council, management, and all personnel who assisted in the audit. The cooperation and assistance we received is greatly appreciated. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

Plante & Moran, PLLC



Leslie J. Pulver



Chris S. Jones